THE Freeman

IDEAS ON LIBERTY

OCTOBER 1957

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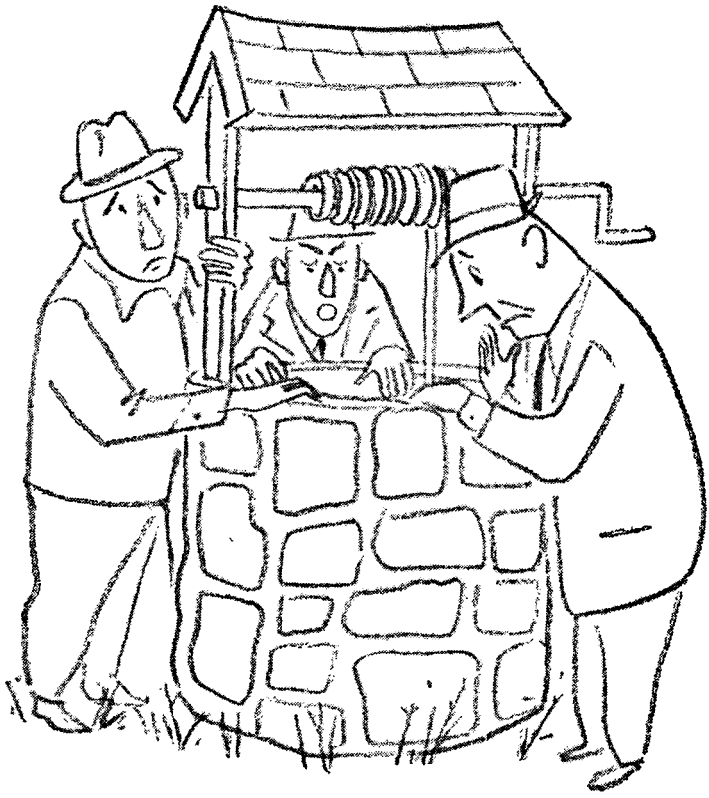

Trouble at the money well

THOSE who regard Washington as a bottomless money well shouldn't be surprised if they find sand in their dippers some day. The sand will come from the bottom of their own pockets. Because the government has only one place to get the money it uses—the pockets of the taxpayers. So the next time you hear someone say "The government will pay for it", make another convert for economy. Remind that man that *he* is the government —he pays.

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An unfair burden

You may not have heard of a proposed federal law known as H. R. 8108. But, if it passes, it will be of direct financial benefit to you.

This bill was introduced by Representative Hiestand on June 13, and referred to the Committee on Post Office and Civil Service. Its principal provision is set forth in these words: "The Postmaster General is authorized and directed to ascertain annually the cost of providing service for fourth-class matter subject to the zone rates established for parcel post. Such cost, whether covered by appropriations to the Post Office Department or to other governmental departments or agencies, shall include all expenses and costs, direct and indirect of whatever character, ascertainable and chargeable under sound commercial accounting practices to the performance of the service. The expenses and costs so ascertained shall include, but not be limited to, the reasonable value of space provided in Government-owned buildings, and the use of other properties and facilities, including depreciation, maintenance, and custodial costs, contributions by the Government to support the Civil Service Retirement and Disability Fund, and payments on account of injuries to employees and others." The Interstate Commerce Commission would review the Postmaster General's findings, and prescribe parcel post rates sufficient to meet the cost of providing the service.

All Mr. Hiestand is proposing in this is that the people who use parcel post and receive the benefits of it pay for what they get—instead of depending on everyone else to pay a part of the cost through tax subsidies. As the Hoover Commission and other bodies have pointed out, parcel post has been subsidized during most of its life, and the deficit is a big one. Here's a way to lift an unnecessary and unfair burden from the backs of all taxpayers.

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LIBERALISM *Takes Stock*

FRANK CHODOROV

"MODERN AMERICAN LIBERALISM," asserts its acknowledged spokesman, "seems to have been undone by its own success. . . . So, if the liberal feels impotent, he can console himself by reflecting that it is in large part the impotence that results from victory." We quote from an article by Professor Arthur Schlesinger, Jr., entitled "Where Does the Liberal Go From Here?" that appeared recently in *The New York Times Magazine.*

What does the victorious liberal feel so impotent about? It is the national problem of "spiritual unemployment"—which the Professor carefully explains in a profusion of words as the low level of cultural and spiritual values in America. But, let him state the problem in his own inimitable way:

"Our complacency, our official piety, our underlying emptiness and stagnation – all these have the effect of a crust settling rather dismally over our current life. The crust plainly smothers deep national instincts: this is shown by the price we are paying for it in moral discontent, in the pursuit of spiritual cure-alls, in the obsession with gadgets, in apathy and boredom." By way of elucidation, the Professor refers to this condition as the "homogenization of our society."

With this indictment many a nonliberal – that is, one who holds to conservative or libertarian ideas – might agree, although he would probably phrase it differently. He might say that America is suffering from what could be called a security-psychology, a loss of the spirit of adventure, a lack of idealism; and he might add that this is a consequence of the liberalistic "victory." The Professor mentions "individual spontaneity" as something America needs badly, but he does not say that this quality is in low supply because under the achievement of liberalism the need for it has shriveled up.

Well, since a liberal must never leave a problem unsolved, something must be done to overcome

Mr. Chodorov, worthy opponent of society-by-compulsion, writes from his home in New Jersey.

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the spiritual and moral lack in America. The article is obviously directed at the liberal, giving the impression that he alone is equipped for the job. Liberalism is a body of thought, says the Professor, that has its roots in Jeffersonian and Jacksonian democracy, in the antislavery movement, in the progressivism of Teddy Roosevelt, in the ages of Lincoln and Wilson; it did not begin with the Great Depression. Since it has proven itself so efficacious in solving the problems of the past, it has the earmarks of a panacea, and therefore can be applied to the new job of improving "the status and growth of the free individual in the mass society." This should be the present concern of the liberal.

But, first, the liberal must rid himself (the Professor suggests) of "his own occasional cockiness and self-righteousness, his weakness for moral and intellectual dogmatism, when riding high"; and then he must overcome "the betrayal of the liberal cause by that tiny minority who deceived themselves (and others) about the beauties of Soviet communism." Continuing in a hortatory manner, he asserts that the liberal "has been among the most zealous of heresy-hunters, with his own set of snuffling orthodoxies and petty taboos – almost as bad, at times, as the conservative. Now the liberal must come to his senses and set his face against the growing homogenization of American society. He must seek new social inventions that will give us the benefits of a mass economy without the cost of a mass culture . . . The liberal, in short, must help make America safe again for individual spontaneity."

By Whose Definition?

Let us accept the Professor's indictment of American Society at face value. The question is, is it within the competence of liberalism to address itself to what he calls "the fulfillment of the individual in the moral and cultural relations of life"? And the answer to that question calls for a definition of liberalism, or an understanding of what it is in reality. Perhaps an approach to the problem from such understanding might put the blame for the condition complained of at the door of liberalism itself.

The Professor does not take time out to define liberalism in a clear-cut fashion; perhaps he believes that a definition would be superfluous. Yet one wonders from his use of the word whether it means to him what it does to people who take their definitions from experience. For instance, he says in his article that the liberal "must re-

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cover his deeper roots in the American cultural tradition – in Whitman, Emerson, Thoreau, Melville, William and Henry James." He gives the impression that these men were liberals. Well, they were, but anyone familiar with their writings would hardly class them with those who now call themselves liberals. As a whole, these men had no faith in mass action, were dead set against the idea that man can be improved by political coercion, and were decidedly antistatist in their views.

Those who now call themselves liberals have shown by their programs and their attitudes that they are for those things that these men opposed. William James sneered at society. Emerson was a transcendentalist, meaning that he believed in the existence of forces that transcended human action, including legislative action. How any modern liberal can claim kinship with Thoreau defies understanding; can the Professor, for instance, subscribe to Thoreau's dictum (in his *Civil Disobedience*) that "that government governs best which governs not at all"?

Rooted in Socialism

Modern liberalism, judging only from what its devotees advocate and do, has no connection with the liberalism of the nineteenth century. It has its roots most decidedly in populism and socialism. The appropriation of the word liberal by the advocates of interventionism and egalitarianism began in the 1920's – not before – and was authenticated by the New Deal. The great "victory" to which

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the Professor alludes with obvious satisfaction is the establishment of a polity of interventionism; the Professor calls it a "mixed economy." Liberalism hailed the advent of the tax-and-spend program; it has always plugged for government regulation of industry, for social security "insurance," for public housing, for higher income taxes, for farm subsidies, for federal control of education, for laws compelling compliance with its own code of morals, for the centralization of power and the immobilization of local government. In short, liberalism is a synonym for Big Government. That's all liberalism is or ever was, in the modern sense.

Indeed, the Professor waxes almost lyrical in describing what "we"— the liberals — have done in the economic field, with government coercion, of course. "We have . . . achieved a steadily rising national output and something approaching full employment." No doubt he expects the reader to know how "we" accomplished all this, for he fails to go into detail.

Credit Political Power

If the matter were brought up, he would most likely deny that private enterprise had anything to do with "rising national output" or that the more intensive use of capital accounted for increasing employment. "A job, a square meal, a living wage, a shirt on one's back, and a roof over one's head" resulted from the interventions, regulations, and controls of industry which the liberals, with the aid of practical politicians, managed to institute. It is not labor plus raw materials plus capital that produces economic goods; it is ideology plus political power.

Now is the time, the Professor says, for liberalism to "shift its focus from economics and politics to the general style and quality of our civilization." But, if liberalism gives up on its political program, what means will it use for the new job at hand? The motive power of all liberal programs is coercion, and to abandon it would just about dismantle the entire ideology.

Morals and Culture

The Professor seems to sense the inadequacy of collective power in the fields of morals and culture, for he says: "This is not an assignment which can be discharged by an interdisciplinary commission or an interfaith committee or be subsidized by a foundation. It can only be the product . . . of a large and mysterious intellectual process, carried on by many minds, but with each communing principally with itself." Here we have a thought that approaches the liberalism of the nineteenth century,

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to the effect that it is through the self-improvement of the individual that society is improved, and that the best society can do for the individual is to let him alone. But, is the latter-day liberal willing to let anybody alone? If he renounces the doctrine of compulsory environmental conditioning, what is left of his ideology?

If there has been a lowering of moral and cultural standards, perhaps the cause is to be found in liberalism itself. By the Professor's admission, the downgrading took place while liberals were concentrating on the economic problem; was this coincidental or consequential?

"Duty of Society"

A cardinal tenet of liberalistic faith is that it is the duty of society to look after the individual, whether he wants such coddling or not. Its interventionist program centers around that tenet. Upon it rests not only the argument for domestic handouts, but also the idea that the "underprivileged" peoples of the world must be brought up to par by generous largesse. Everybody can be made comfortable and happy by government dispensation, particularly when the job is placed in the hands of qualified liberals. That's axiomatic.

But, what is the effect on the spirit of the person who is protected from the exigencies of life, even from the consequences of his own failings? Take a dog from the country, where he has been accustomed to improving his menu by foraging, put him into the parlor, feed him from the can, and what kind of dog will you have? Not a self-reliant one, not one given to adventure, but a nice, flabby pet. In like manner, a regime that promises the warmth, comfort, and security of the prenatal state is likely to induce an infantile attitude in a people.

Before liberalism came along, the young man embarking on a career looked for a "chance to make good," contemplated going into business for himself, and was sure he had the future by the tail. Today, thanks to liberalistic reforms, he evaluates his job not so much on its possibilities as on its promise of security. Old age does not concern him because that is a problem of government; even the prospect of unemployment is no spur to ambition when one knows that a handout will keep the wolf away. If the American spirit has suffered a decline, to what extent is this due to liberalism?

Individual Responsibility

The keystone of any code of morals is a sense of responsibility; animals have no such sense and therefore are amoral. If American

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morals have slipped a cog or two, as the Professor intimates, can we not look for cause to the attitude of irresponsibility induced by liberalistic legislation? First of all, cradle-to-grave protection eases up on one's sense of responsibility to oneself. The relinquishment of that obligation makes the acceptance of handouts quite moral. As for one's responsibility to one's fellow man, the charitable impulse is done away with by an easy shift to the broad shoulders of government. Finally, when the law becomes the guide of all human behavior, there is no call for ideals or absolutes by which one must chart his course. Perhaps this point of view is beyond the mark, for it seems that when the liberal talks of morals he does not mean behavior measured by absolute standards, but behavior consistent with the dicta of the mass, as recorded in statutes.

The Mass or the Man

When the Professor talks about culture – which he says has declined – does he mean the culture of the mass or the culture of the individual? Liberalism has consistently idealized the mass-mind and denigrated personal excellence. Thus, it has worked indefatigably for the extension of education to all, even by force. But, to accomplish this end it is necessary to lower the standards of education to the capacity of the mass-mind, to equate education with skill in handicrafts, to drop courses that only the better equipped minds can encompass. The liberal is convinced that it is better for all to have a little education than that a few should attain heights beyond the reach of most. If the liberals are to concern themselves with raising American culture, it would be necessary for them to reverse themselves. They would have to create a market for Milton, Shakespeare, Plato, Beethoven, Bach, and the like, and let those whose utmost limit is jazz, the comics, and four-letter words shift for themselves without a college degree.

All in all, the Professor's adjuration to liberals that they do something about improving American morals and culture is contradictory, to say the least; they could not do anything along these lines without renouncing liberalism. Nevertheless, his concern with the matter is in itself a promise; perhaps those who have been flirting with liberalism will be prompted to do some solid thinking as a result of his pointing up the problem, and will pass up the ideology.

• • •

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LEO WOLMAN

WHAT TO READ ABOUT LABOR

THERE must be something lacking in research and writing on American labor problems when the voluminous literature on this subject failed to warn intelligent and literate Americans of what an investigation of the behavior of labor unions would show. This certainly is one conclusion that can be drawn from the shock of surprise which has greeted the revelations of the McClellan committee. For here is a popular movement, some 18 million strong, which for more than 25 years has been the beneficiary of invaluable concessions from the executive, legislative, and judicial branches of the federal government – not to speak of what rights and powers it derived at the same time from state and local governments. Yet, at the close of this critical period, there is nothing in the available labor literature which describes realistically and accurately how unions operate, how they accumulate power and what they do with it, how they manage their internal affairs, and what relations exist between members and officials of a union.

This gap is not due to lack of writing and investigation. There are so many books that to collect a labor library nowadays is a considerable and expensive undertaking. Much money is also available for research. But the trouble seems to be that authors and investigators shy away from examining unions as working institutions, as the collectors and users of economic and political power. Instead, they treat them as abstractions, as one of the leading instruments or tools of the Welfare State. They are, consequently, not concerned with what unions do or how they conduct their affairs, but with the functions they are alleged to perform in replacing disorder with order in the labor market and in equalizing bargaining power by substituting collective for indi-

Dr. Wolman, Professor of Economics at Columbia University, is an eminent authority in the field of labor relations.

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vidual action. The idea seems to be that so long as unions undertake to practice collective bargaining, which is the supreme goal of public policy, everything they do in pursuing that goal is above suspicion, reproach, or inquiry.

A Wrong Impression

This is, of course, a dangerous condition. For it means not only that the public is misinformed about one of the most important institutions of these times but that professionals look to such writing as the authority for their conclusions and decisions. Only last year, Mr. Justice Douglas, writing the opinion of the U.S. Supreme Court in the Hanson case, which upheld the constitutionality of the compulsory membership provision of the Railway Labor Act of 1951, appealed to such authorities in support of the Court's opinion. "One would have to be blind to history," he wrote, "to assert that trade unionism did not enhance and strengthen the right to work. See Webb, *History of Trade Unionism*; Gregory, *Labor and the Law.*"

Now, putting aside the ambiguities attached to the phrase, "right to work," as used above, the Supreme Court in the Hanson case was faced with a simple question: whether an act of Congress legalizing compulsory membership on the railroads deprived railroad employees who were unwilling to join unions of their basic constitutional rights. Anyone who has read the Webbs would be hard put to find in their writings any material relevant to the question before the Court in the Hanson case. All the Webbs were saying in their treatises – *Industrial Democracy* and *History of Trade Unionism*, published in the 1890's – was that trade unionism was a good thing which deserved public support and legislative sanction. There was certainly nothing in the Webbs that had the remotest connection with the long history of governmental policy toward railroad labor relations, the rise to power of the nonoperating railway unions, the manner in which they have used their power, and the story of strikes and violence on the railroads in the past 15 years.

Fresh Approach Needed

Obviously, what we all need is a more modern literature of trade unionism – one which faces, and does not evade, the issues of the concentration and abuse of power. It is encouraging that new writing of the past several years has begun to address itself to long-neglected economic and political problems of organized labor. *The Impact of the Union*,[1] a series of essays by economic theorists on the economic

[1] New York: Harcourt, Brace and Co.

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effects of labor organization, deals with the problem of whether unions raise the material standard of living, and denies the affirmative answer which had long been taken for granted. This was followed by F. A. Harper's little book, *Why Wages Rise*,[2] a model of simplicity and clarity, which sets forth the story of the rise in wages next to the changing strength of trade unionism during a long span of American history, and finds no significant relation between the two.

Labor Policy for Free Men

The latest book in this proposed modern library of unionism is by Sylvester Petro, Professor of Law, New York University School of Law. The title of his book is *The Labor Policy of the Free Society* (New York: Ronald Press Company. 339 pp. Indexed. $5.00). He approaches the problems of labor law through their relation to a system of society and in the process deduces standards of conduct and principles of law. Being a man of perception, conviction, and courage, he writes about questions which most people are, or should be, thinking about today.

Discussing property rights and human rights, he goes straight to the heart of the issue by saying: "Property rights are human rights, and nothing else." Concerning voluntary associations he writes: "Voluntary associations create insoluble problems of principle only in unfree societies, or in free societies which are on the way to becoming unfree. . . ." Considering the trade union as a form of voluntary association he holds that ideally, as opposed to fact, "the trade union enjoys a status no different from that occupied by any other private association," and that "violent, coercive, or fraudulent acts, in the theory of the free society, are as vicious and antisocial when performed by trade unions as they are when committed by the Ku Klux Klan." Moving then to the present position of unions in the United States, he concludes: "The situation, then, in regard to violent interference by unions, is this: unions continue to have today, despite the existence of clear legislative prohibition, a special privilege under national law to engage in violence."

Every believer in a free society and serious students of the American scene owe it to themselves to study Professor Petro's book so that they may weigh the arguments and assess the supporting data which drove him to his conclusions. • • •

[2] Irvington-on-Hudson, N. Y.: Foundation for Economic Education. $1.50.

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Do Antitrust Laws Preserve Competition?

SYLVESTER PETRO

Dr. Petro, Professor of Law at New York University School of Law, is author of numerous articles and books, the most recent being "The Labor Policy of the Free Society" (New York: Ronald Press, 1957). This article is a compressed transcript from an informal seminar discussion at FEE, summer, 1957.

THE ANTITRUST LAWS are commonly thought to be the institutions that distinguish the economic system of the United States from the rest of the non-Soviet world. But for these laws, it is said, we should be plagued with cartelization as in Great Britain, Germany, or France. Many believe, in short, that the antitrust laws are responsible for our having a competitive society.

Preserving competition might have been the objective about 1890 when the basic act was passed. But certainly for the past generation the antitrust laws have not functioned to that end. Rather than preserve, they have through questionable interpretation and administration in fact impaired competition, by subsidizing and preserving inefficient competitors.

By competition, I refer to a situation that exists when the basic rules of the free society are observed – when everyone possesses the basic rights of private property and freedom of contract. Competition is not a mode of conduct that anyone has to promote institutionally. It develops naturally and necessarily among persons who are free to pursue their own interests. Whatever one's personal interest or objective may be – businessman, sculptor, or preacher – the consequence of pursuing it puts him in competition with all who share

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that objective. That being the case, preoccupation with promoting competition is at best a diversion of effort which could have been used to protect private property and freedom of contract. My thesis is that we have erred in the formulation and application of the antitrust laws of the United States.

A List of the Laws

What are these laws? The first is the Sherman Act of 1890. This law makes every contract or combination in restraint of trade and every conspiracy to monopolize the trade or commerce of the United States a misdemeanor.

Next came the Clayton Act in 1914, declaring unlawful specific types of contract, such as a tying agreement, or an exclusive sales contract, when the result may be to lessen competition or tend to create a monopoly. The Clayton Act was intended to clarify or make concrete the general proscriptions of the Sherman Act.

Usually included among the antitrust laws is the Federal Trade Commission Act which broadly states that unfair methods of competition shall be subject to prosecution.

Though Fair Trade laws are laws of particular states, they also come under the heading of antitrust laws. All provide that when a contract is made between the seller or manufacturer of certain goods and a retailer, providing for a specific resale price, then all purchasers of these goods with notice of the main contract are bound to observe the price set in that main contract. These state Fair Trade laws all grew out of what I believe to be unfortunate decisions under the Sherman Act prohibiting a resale price maintenance contract between a manufacturer and a retailer.

Though I see no violation of freedom of contract if a retailer is willing to sell at the resale price stipulated by the manufacturer, the Supreme Court thought restraint of trade was involved and held such resale price maintenance contracts unlawful. Conditions in the 1933 depression prompted many states to pass Fair Trade laws, and Congress suitably amended the Sherman Act to validate such state laws. But these laws now go much further than legitimatizing a reasonable contract between a manufacturer and a retailer; they enable that manufacturer and retailer to fix prices for all persons who come into possession of the goods in question. Such binding without consent appears to violate the principle of freedom of contract – a case of having pushed the Sherman Act to reach an anticompetitive result.

The Robinson-Patman Act of

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1936 is the last of the antitrust laws worth noting here. This act, in general, provides that the price – including such things as advertising allowances or brokerage fees – for goods of like grade and quality must be the same to all purchasers, subject to these qualifications: (1) A price discrimination is not unlawful if it can be demonstrated that it has no tendency to limit competition or create a monopoly. (2) If the seller can demonstrate that his costs of selling are lower to buyer A than to buyer B, then he may charge A a proportionally lower price. (3) A seller may discriminate in favor of buyer A if he can show that he had to lower his price in that instance to meet in good faith the offer of a competing seller. Like the Clayton Act, the Robinson-Patman Act was designed to be specific concerning one of the general objectives of the Sherman Act.

The Northern Securities Case

On the basis of this brief outline of the various antitrust laws, let us proceed to examine how these laws have been interpreted and used. I mentioned earlier that one consequence of antitrust action has been to preserve inefficient competitors to the impairment of competition. In other words, the antitrust laws have been perverted from a supposed charter of economic liberty into a demagogic onslaught against large and successful business with a kind of vote-buying subsidy, not for small business, but for inefficient business.

Both historically and doctrinally this process can be traced to a famous case involving Messrs. Hill and Harriman – the Northern Securities case. Hill and Harriman, after what some people called a titanic financial war, decided that it would be to their advantage if they merged a couple of railroads running along the northern tier of states out West. The railroads were the Great Northern and the Northern Pacific. The United States sued under the Sherman Act, charging that this was a violation of both Sections 1 and 2 of that Act–a combination in restraint of trade, and an attempt to monopolize a certain portion of the trade or commerce in the area of the United States that these railroads covered. The decision was close. A majority of one held that the holding company violated the antitrust act. Justice Harlan, grandfather of the present Justice Harlan, reasoned for the majority along these lines: In prohibiting combinations in restraint of trade, what the Sherman Act intended was to outlaw any impairment of competition. Though these companies did not compete for 74 per

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cent of their business, there was an overlap of 26 per cent; and when they decided to merge, that 26 per cent was destroyed. Therefore, there was a restraint of trade within the meaning of the Sherman Act.

Holmes Was Right

Justice Holmes, dissenting, reasoned from the fact that the Act does not say that any reduction in the number of competitors is a misdemeanor; it says that a combination in restraint of trade is a misdemeanor. He argued that since the words "in restraint of trade" were used, the Court ought to follow the meaning generally given those words under common law — the classical theory of interpretation. He was right. The assumption is, and has to be — except in the case of deliberate specification to the contrary on the part of Congress — that the words of any statute are used in the sense of existing law. Holmes went into an exhaustive survey of the relevant common law and pointed out that there was nothing whatsoever in its history to imply that such a merger is a restraint of trade.

Holmes further said in effect: The Court must remember that the rule it is making in this case is a rule that must be applied equally to all persons engaged in mergers. If it be said that these two railroads cannot merge because they compete for 26 per cent of their business, one must say that two corner groceries who compete for 26 per cent of their business cannot merge. It would be the same for other persons. Furthermore, by this case the Court is establishing a precedent to the effect that if one of these persons should buy out the other, he is violating the law. Without realizing it, Holmes said, the Court majority is construing the Sherman Act as destructive of one of the leading principles of society in this country, that is the free, inalienable right of voluntary association.

I believe Holmes was right in this case. He was right both as a technical legal analyst and in his forebodings. Establish the premise that voluntary mergers are bad, and you have a basis for challenging normal, common business procedure in an economy based on freedom of contract. This is the daily fare of business and of capital. If a business feels that its affairs may be more rational if it combines with another firm, it merges or acquires assets or stocks of another corporation. And yet, each time this perfectly normal thing is done, the participants are in danger of antitrust prosecution.

One must recognize the real nature of the hidden menace here. The fact is that not every merger

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can be prosecuted. It is a physical impossibility. A market economy could not function if every such action were prosecuted. However, from the point of view of legal science, the resulting situation is very bad. Instead of having a universal rule of law applicable equally to all members of society in free and open competition, what we have is selective prosecution.

What is the basis of selection? There isn't any legal basis for selection, and if you haven't a legal nonarbitrary basis for selection, what is your basis going to be? The answer is perfectly clear. It is going to be political and ideological. And these two things have tended to merge inextricably over the last 40 years or so.

There is a great preoccupation with timing of antitrust prosecutions; suits are brought against mergers whenever the Democrats, or the Republicans, want to make political hay by showing how rough they are on business. Add to the mix the Marxian theory that business is bound inevitably to get bigger and bigger until we are all at the mercy of the exploiting monopolists, and you have two primary qualifications for antitrust prosecution. First of all, it has to be a big business, big enough to scare people. And secondly, the occasion has to be politically propitious.

What is to happen to a country in which success in the market place is to be a signal for prosecution by politicians anxious to curry public favor? It is a serious question, prompted by the situation which prevails today. Danger of antitrust prosecution threatens any firm that manages to grow and to out-produce its competitors.

It would really be a comfort to know that each business was doing its utmost to get as much of the market as it possibly could, that each firm was striving to put out the greatest possible production at the lowest possible cost, that, in short, it was being directed in accordance with the public good. But because of so many interventionist devices, the measuring sticks provided by a free market are no longer available. You can't be sure that a move or a failure to move on the part of a business is dictated by economic considerations in response to the desires of the people.

Prosecutions for Price Fixing

Further insight into the absurdities and frustrations of the antitrust laws is afforded by review of the prosecutions under the Sherman Act for price fixing. The famous Morton Salt case dealt with that issue. And there have been a great many others – perhaps 30 or 40 before the Supreme

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Court. But what on earth can be the consequence of a judgment that a price-fixing agreement is unlawful? What can anyone do about it if 20 firms have agreed to charge a certain price for a product? Assuming that it is a homogeneous product, how can 20 different firms be expected to sell it at 20 different prices? If A charges 98 cents, B a dollar, and Z $1.26, how is Z to gain a sale?

The point is that such prosecutions are nothing but ceremonial political promotions of the party line: "Watch those businessmen!" We are great at berating the businessman for doing what is as natural to him as breathing. The function of the market is to find the right price, to bring competing goods toward the same price, and to screen out those producers who can't meet the price.

The Cement Institute case illustrates the point. All over the country, cement manufacturers were submitting bids that were identical to five decimal places; and the Supreme Court thought this was inherently incredible without some evil conspiracy. But if this seems incredible, try to sell cement at as much as a fraction of a cent higher than competitors are charging. When cement prices begin showing variations, it will be time to look for collusion and conspiracy.

So we find that the Sherman Act itself, the basic antitrust law, has been and is being used, not to promote and maintain competition, but to discourage the abler firms from operating to the limit of their abilities. Add to this the Fair Trade and the Robinson-Patman designs to handicap the larger more efficient merchandisers, and there is no escaping the conclusion that the so-called antitrust laws are in fact anticompetitive and antisocial. They are pushing toward a rigid, inflexible, industrial structure which interferes with the free play of market forces.

Why the Market Works

I have already mentioned some important requirements for the functioning of a free society – for the free play of market forces. The right to private property is one. Freedom of contract is another. Beyond these is a need for better understanding of the market process – more faith in it and less fear of it.

The market works because of man's desire to make a profit, to get more out than he puts in. Capital formation and use rests on this premise. People act in order to better themselves, increase their profits, decrease their losses. And the best opportunity for profit lies in the production of things others want – in service to others. This means that the profit motive is

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morally as well as economically sound.

The free play of market forces also calls for freedom to trade. Free trade policies are the most effective and successful of all possible antitrust actions. Free trade is the best kind of curb on all forms of government intervention, including subsidies to farmers, monetary tricks, or any other interference you could name. One of the grim features of our day is the great preoccupation with international peace and harmony while at the same time we have the erection of all sorts of trade barriers.

How Many Competitors?

On the domestic front we glory in the productive accomplishments of the industrial revolution and freely acknowledge the advantages of large scale mass production. But we seem bound to try to stop the spreading of such advantages when it comes to distribution and retailing of these goods and services. Our politicians count noses and find more small retailers than chain store operators. So they enact Fair Trade laws and Robinson-Patman acts deliberately designed as barriers to the development of mass distribution methods which could mean better living for all as consumers. Perhaps this simply reflects a general fear of bigness in business — a feeling that the greater the number of competitors, the better.

A free competitive market is not a condition which requires for its existence large numbers of producers. It only requires freedom on the part of all people to produce if and when they wish. If the unlikely situation should exist that in a certain line of production a single firm could most economically satisfy the whole market, then, of course, you would have a condition which might be called monopoly. But this is not the aspect of monopoly that people fear. What really disturbs people about monopoly is not that a single person or firm has control over a commodity but that force, compulsion, or special privilege has been used to keep other people out.

The Origin of Monopoly

Some history is useful here. Monopoly became a problem in the Anglo-American legal system owing to its origin. Monopoly originated in crown grants to certain people of exclusive privileges maintained by the force of government. Queen Elizabeth granted a monopoly in salt, playing cards, and a number of other things. She did this only because she was dissatisfied with the fact that Parliament controlled the purse strings in England. Parliament had insisted on the exclusive power to

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tax, but Queen Elizabeth had certain ends and aims of her own, and the money needed to attain them came from the persons or groups to whom monopoly powers were granted.

It's very plain that this situation has nothing to do with the free market, which grants no exclusive franchise. But the market does not preclude a monopoly. In fact, monopoly in the purely descriptive sense and the right of private property are the same thing. Each of us is a monopolist. We are in exclusive control of our person and all that we legitimately create. If we legitimately create the best and most efficient organization, so productive and so efficient that no one else can compete, we have a monopoly in that descriptive sense. But there is no social harm done as long as everyone else has an equal right to get into production. There can't be any social harm because the social interest lies in the most efficient production of goods. Monopoly in this sense means only that society has achieved that end. One person, one firm, in a free competitive market, has proved to be more efficient than any other. Anyone else is free to produce, if he thinks he can compete.

We have a pretty good example of that sort of thing in the automobile industry in this country. The industry operates in as free a market as one can have in this imperfect market economy. Unlike some other industries, this one is not plagued by an overweeningly jealous attitude toward patents. Anyone can get into it. But more are getting out than getting in. Is something drastically wrong in that industry in the sense that a social harm is being done? It seems to me, if you are fair about it, you would have to say that the big three in the automotive industry are simply better public servants in this line than anyone else.

There's quite a difference between monopoly in the descriptive sense of being the only producer, and in the exploitative sense of using force or state aid to exclude competition. The latter is something that free men should fear. And they should know that the government itself is apt to be the culprit behind genuinely antisocial monopoly.

A Useful Antitrust Action

I want to make clear that one phase of antitrust policy is in my opinion of real social utility. That is the phase concerned with secondary boycotts and other predatory oppressive practices which I consider harmful interferences with the free market. Let us assume that 30 or 40 retailers, with a common supplier, have an arrangement to avoid competing and

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to split up territories. Along comes an interloper, a true competitor, who wants to buy from the same supplier. If the other retailers then threaten to quit buying unless the supplier refuses to deal with the interloper, they are held to be in violation of the antitrust laws – and I think rightly so.

Though the market eventually would rectify such a situation, substantial harm could be done to the interloper in the interim. Also, such collusion might lead to a generally cartelized economy, to everyone's detriment. So I have no objections to antitrust laws as a curb on secondary boycotts and other oppressive action, though I'd prefer that such abusive practices be subject to prosecution under common law rather than special statute law.

Actually, secondary boycotts are rarely used by businessmen, the most flagrant offenders being the trade unions. However, the unions seem to be immune to prosecution under that single phase of antitrust policy that could be socially useful.

A Positive Program

If I were responsible for preserving competition in the United States, I should not turn to the antitrust laws for help. The common law affords all the legal action needed, and its great merit is that people in significantly similar legal circumstances have to be treated the same way. Politics are excluded.

A long step toward preserving or restoring competition in this country could be taken by abolition of the discriminatory, anticapitalistic, progressive income tax, which skims off the cream of the risk capital – takes the ammunition away from the competitors. They can't compete without ammunition, any more than boxers can perform with their hands tied behind their backs. So my platform would include a plank for repeal of the discriminatory tax laws.

Another plank in my platform to preserve competition in the United States would involve repeal of the laws which have granted so many special privileges and exemptions to labor unions and other pressure groups. In this, I take comfort from the fact that the greatest of all legal scholars, Sir Henry Maine, drew the same conclusion – an elaborate intricate code of laws is a sign, not of a sophisticated society, but of a primitive society. English law, until toward the end of the eighteenth century, was characterized by a practically solid network of laws regulating the most intimate affairs, especially when they were economic affairs. There were laws fixing the amount of flour in bread.

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A wheelwright couldn't be a wainwright. There were laws against forestalling, engrossing, and regrating, and so on, and on and on. Someone remarked that forward-looking men toward the end of the eighteenth century and the beginning of the nineteenth century were spending most of their time wiping laws off the books and, as you know, the impetus toward that very helpful form of human conduct was supplied by laissez faire theory.

Mankind's Eternal Task

All people interested in having a free society, I think, should be concerned with spreading ideas of freedom; let the actual, detailed measures take care of themselves, as they inevitably will. The ideas have to come first. The most important thing to a society is that its idea factories are really well run. The scholars, writers, and philosophers of a society have to be good or there is really little hope. How does one bring about a change in the idea factories? I have no answer except that hard one of slow self-discipline, more rigorous and objective pursuit of truth; all the things that take forever. This is mankind's eternal task. • • •

The Survival of Ideas

MOST INTELLIGENT PEOPLE are now beginning to realize that democracy is declining and peaceful society disintegrating with hopes of world peace receding. They imagine that the solution lies in finding some political leader who can lead us to salvation. They forget that the one group of the community which can never save us is that which comprises the politicians for, in a democracy, they have to follow public opinion or accept defeat at the polls. The survival of liberty and democracy does not depend on the survival or the change of governments. Whether liberty and democracy will remain with us depends entirely upon the survival of ideas. The socialists grasped this truth and that was why, in every town and village, they set up their cells of education to cultivate the belief in the philosophy of Karl Marx. So successful have they been that they have almost conquered the world, for their opponents have never had sufficient understanding of the problem to offer any opposition.

Hauraki Plains Gazette, New Zealand, February 1, 1957

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The GREAT SWINDLE

HENRY HAZLITT

A YEAR AGO (*Newsweek*, June 25, 1956) I printed here, under the above title, a table showing the depreciation, in terms of domestic purchasing power, of the currencies of 53 countries in the ten years from 1946 to 1955. This table had been compiled by Franz Pick. He has now carried it forward, for the nine-year period from January 1948 to December 1956, in the 1957 edition of his *Currency Yearbook*. I present the results below, showing the depreciation of 56 currencies in that period.

It is important to keep this appalling world-wide picture constantly before our minds. For it reminds us that inflation is nothing but a great swindle, and that this swindle is practiced in varying degrees, sometimes ignorantly and sometimes cynically, by nearly every government in the world. This swindle erodes the purchasing power of everybody's income and the purchasing power of everybody's savings. It is a concealed tax, and the most vicious of all taxes. It taxes the incomes and savings of the poor by the same percentage as the incomes and savings of the rich. It falls with greatest force precisely on the thrifty, on the aged, on those who cannot protect themselves by speculation or by demanding and getting higher money incomes to compensate for the depreciation of the monetary unit.

Why Inflation?

Why does this swindle go on? It goes on because governments wish to spend, partly for armaments and in most cases preponderantly for subsidies and handouts to various pressure groups, but lack the courage to tax as much as they spend. It goes on, in other words, because governments wish to buy the votes of some of us while concealing from the rest of us that those votes are being bought with our own money. It goes on because politicians (partly through the second- or third-hand influence of the theories of the late Lord Keynes) think that this is the way, and the only way, to maintain "full employment," the

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present-day fetish of the self-styled progressives. It goes on because the international gold standard has been abandoned, because the world's currencies are essentially paper currencies, adrift without an anchor, blown about by every political wind, and at the mercy of every bureaucratic caprice. And the very governments that are inflating profess solemnly to be "fighting" inflation. Through cheap-money policies, or the printing press, or both, they increase the supply of money and credit and affect to deplore the inevitable result.

The following table is based on official cost-of-living indexes, many of which understate the real extent of currency debasement. Russia and its satellite countries are omitted because disparities between actual and "official" price levels are so wide and the statistics are meaningless. The American dollar, to which so many other currencies are ostensibly tied, itself shows a depreciation of 15 per cent in the period. The British pound sterling, the world's most important trade unit, lost 34 per cent, the French franc 52 per cent, the currencies of Chile, Paraguay, Bolivia, and Korea, from 93 to 99 per cent. • • •

CURRENCY SHRINKAGE

Percentage Decline in Purchasing Power of Monetary Units
January 1948 – December 1956

	Per Cent		*Per Cent*
Dominican	2	Norwegian	33
Egyptian	6	New Zealand	33
Portuguese	6	Spanish	34
Haitian	8	United Kingdom	34
Swiss	10	Thailand	35
Ceylonese	11	Turkish	36
Burmese	12	El Salvador	40
Dutch Antillean	12	Nicaraguan	40
Ecuadorian	13	Mexican	45
Pakistan	14	Colombian	46
Belgian	15	Uruguayan	48
United States	15	Finnish	49
Indian	15	Icelandic	51
West German	18	Australian	52
Venezuelan	19	French	52
Hong Kong	23	Japanese	55
Guatemalan	23	Austrian	55
Canadian	25	Peruvian	55
Italian	25	Greek	58
Honduran	26	Indonesian	59
Costa Rican	27	Israel	66
Irish	28	Brazilian	70
Malayan	28	Argentine	73
Danish	29	Taiwan	85
Swedish	29	Chilean	93
Netherlands	30	Paraguayan	96
S. African	31	Bolivian	99
Iranian	33	Korean	99

Newsweek, July 1, 1957

The Insecurity of Inflation

IN EARLY 1950, a fixed monthly income which might have been adequate for ample living in 1914 would purchase only one modest meal a month at current prices in France.

PAUL L. POIROT, *The Pension Idea*

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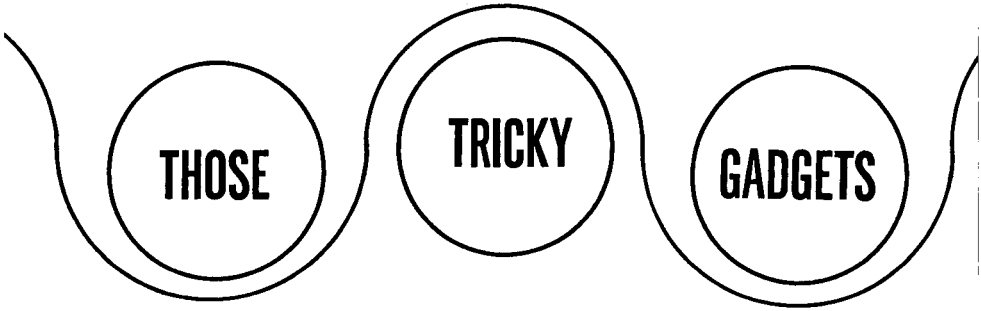

EDITOR, the *Wall Street Journal*:

Your editorial, "Inflation's 'Tricky Gadgets'" (June 28), brings to mind that Andrew D. White in his classic *Fiat Money Inflation in France** remarked how "curious it is to note the general reluctance to assign the right reason" for the depreciation of the purchasing media used by the French people in 1791.

Just as we blame it on the "tricky gadgets," which are actually merely attempts to counteract the effects of inflation, so the French blamed their inflation on everything under the sun but the real cause — issuance of billions of paper francs by the French government. Ours is the result of the issuance of billions of dollars of domestically irredeemable purchasing media by our government through the centralized banking system.

It is a serious matter to ignore the real cause, for the perpetrator of the inflation — the U.S. government — is forgotten and only occasionally blamed. But it is the government which initiated the inflation by taking the country off the gold standard. It is the government which monetizes its debts . . . and practices the philosophy of monetary manipulation as the means to insure continual prosperity through an ever-increasing expansion of credit and purchasing media.

As it manages to evade responsibility for its own actions, it sits supremely confident, like Sir Galahad upon his charger, ready to ride forth to rescue the people from the machinations of capitalists, upon whom the chief blame for the inflation falls.

And how will it do this? It will, in a dramatic fashion, institute statutes designed to "hold the price line," all the while it continues to pour forth more "money." As these price controls will result in less goods appearing in the market place, in order to assure that all will have equal opportunity to the available goods, it will establish rationing. And when that leads to black-marketing, it will issue Draconian edicts to punish the malefactors. Out of this will accrue to the government that totalitarian power which will make freedom here a mirage of the past.

Those trusting souls who believe such is impossible need but recall that out of the French inflation of the 1790's came the dictatorship of Napoleon Bonaparte.

O. B. JOHANNSEN

*Available from the Foundation for Economic Education, Irvington-on-Hudson, New York; 50 cents.

Mr. Johannsen, employed in industry, has an avocation of teaching and leading adult discussion groups. This article first appeared in the Wall Street Journal *of July 9, 1957, and is reprinted here by permission.*

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Enter into Life

SAMUEL B. PETTENGILL

WHEN I got through Vermont Academy, college, and law school, I played a good deal of chess while waiting for clients who were bold enough to let me *practice* law on them!

Chess, as some of you know, is the most difficult of all games. The combinations and permutations on the chessboard run into the octillions and no man ever has, or ever will, completely master it.

Chess "masters" are relative only to other players. Nevertheless, they are remarkable men. One of several I got to know was Emmanuel Lasker of Berlin, Germany, who had been the world champion for 24 years. He was not a mental freak. He had a Ph.D. in mathematics and wrote a profound book on philosophy. In addition, he was a kind and gentle man – then in his 60's.

We got him to come to my home town of South Bend to put on an exhibition match with some 30 local players. At supper that night, we asked this grand master why he had given so much of his life to chess.

He said: "The chessboard is a symbol of life – of all life. The essence of life is struggle. Take struggle out of chess, or out of life, and what is left? In chess I have found happiness."

That was 35 years ago. I have never forgotten his words and have often said to young parents, "Don't take struggle out of your children's lives."

The instinct of fathers and mothers is to do just that – to make "life easier for my boy than it was to me." It is interesting to note that youth is sounder in this matter than age. Youth revels in competitive sport, whether to do something better than his fellows, or to beat some previous record.

Even small children, when they invent games of their own, always put struggle into them. Struggle is a blessing to be sought for, not an evil to be avoided.

Mr. Pettengill, noted attorney and author, was formerly a congressman from Indiana. This article is from an address of May 26, 1957, before the Cum Laude Society of Vermont Academy at Saxton's River, Vermont.

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We have met tonight to recognize those who have won the honor of a *cum laude* student. But "honors are silly toys," unimportant in themselves, important only as evidence of something well done. Those of you who did not win had the struggle as well as the winners – which is the thing that counts.

So I congratulate both the winners and those who tried but did not win. I know who is going to get the big rewards of life.

In recent years, society has gone "nuts" on the pusillanimous cult of "security," guaranteed by government; in short, a nation of parasites. The illusion of the age is that people can vote themselves rich. It is a superstition that "social security" depends on the promises of politicians, not on the character, competence, and courage of men. It is a fable and a fraud that the output of society can be greater than the input of individuals.

It is a universal complaint that nobody *wants* to work any more, or only enough to "get by." Employers are frantic for dependable employees. Labor unions have the laudable desire to improve the position of their members, but they overplay their hand when they say: "Stretch it out. Take it easy. Do no more than enough to stay on the payroll."

When young people apply for their first job, they ask, "When will I begin to draw a pension? How many coffee breaks in a day? How many paid holidays? How long and frequent are the paid vacations? And if I work more than 40 hours in the 144 hours in six days, do I get time-and-a-half?"

The young men who ask none of these questions are sure to get and hold a job. In fact, such young men have a golden age ahead of them, with less competition than their kind have ever had – and greater rewards.

The Strenuous Life

When I was at Vermont Academy, Theodore Roosevelt was President. He attracted national attention when he said: "I wish to preach not the doctrine of ignoble ease, but the doctrine of the strenuous life." He said of himself, "Let me wear out, not rust out." He told young men to hit the line hard. He told women not to shirk their prime function to bear children. He said this at a time when any woman who had more than two children was considered subhuman, if not a little indecent.

Theodore Roosevelt dreamed nobly of his country, and by the fire of his example, lit other fires in millions of homes. It was said

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that Washington founded the nation, Lincoln saved it, and T. R. revitalized it. He appealed to the *strong side* of men as is now done chiefly by marine sergeants and the coaches of athletics like my old friend, Knute Rockne.

"Rock" had no use for "lounge lizards" or "tea hounds" on a college campus. Youth liked that. They flocked to Notre Dame to play under Rockne; and when his players were behind at the end of the first half, they proceeded to pull the game out of the fire because "We can't let 'Rock' down."

Italy Becomes a Republic

A century ago, Italy was under foreign rule. It was then that Mazzini – or was it his fellow patriot, Garibaldi? – appealed to the strong side of men with these words: "Young men of Italy, I offer you nothing but the water of the streams as your drink. I offer you nothing but black bread as your food, and nothing but the blue canopy of heaven and the lights of the eternal stars as your covering at night. But if you follow me, young men of Italy, you and I will be free!"

They followed – and Italy became a republic!

But today, the general appeal is to the *soft side* of men – envy, self-pity, covetousness, class hatred. Our elections have become auctions in which rival politicians of both the old parties outbid each other by opening the door of the treasury in exchange for votes.

"Come and get it" is the slogan as people become the vandals of their own country and "bread and circuses" the formula for political advancement.

In the educational field, men like John Dewey have tried to eliminate struggle from the classroom. No required subjects! No examinations! They develop inferiority complexes, rather than the challenge to do better. Never punish a child. Children should be wholly free. And so forth. With the result that employers despair because "Johnny can't read and Mabel can't spell."

So we have cities with few citizens, but many who wish to share the blessings of liberty, but shirk its burdens.

This is not the spirit of 1776, nor of the great chess master, nor of Theodore Roosevelt. America needs a rebirth of "the strenuous life"' and I know I am talking to young men who will take their part in it.

It was said of those who crossed the Appalachians down into the valleys of the Ohio, the Mississippi, and the Missouri and pushed the frontiers of freedom to the Pacific shore that "the cowards never started and the weak never

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arrived. With no capital save courage and no resource except resourcefulness they built the American empire."

Here are the hundreds of miles of stone walls of Vermont – every stone dug from the ground and moved to where it now lies by ox-power and human muscle alone. We think of the pyramids of Egypt, and the tens of thousands of slaves who dragged the huge stones across the desert under the whips of their masters. It is my guess that the stone walls of Vermont represent more toil than the pyramids. But the walls were laid by the free choice of free men. "They scorned delights and lived laborious days."

It is good to have a school for young men in sight of those stone walls!

Avoid struggle and life becomes sterile, vapid, and meaningless. Our mental hospitals are being filled with thousands of neurotics, many of whom feel inadequate to meet life because they were protected from taking the bumps in childhood.

No man was ever greater than the difficulties he overcame. Great difficulties, great men. Small difficulties, small men. From struggle comes strength – and physical and mental health.

It is only struggle that calls forth hidden powers we do not know we have. The great psychologist, William James, said the average person does not put forth more than 10 per cent of his potential.

Whence Came His Strength?

Let me tell you a story of my great-grandfather, Peter Pettengill, who came to Vermont in 1787. One time his hired man was chopping down trees in the virgin forest and did not come to the house at noon for lunch. My great-grandfather went to see what was wrong. He found that a tree had fallen on the hired man and killed him. With nothing but the strength of his own powerful body, Peter lifted the tree off the dead man and carried him to the house.

Whence came his strength to do that? From the challenge before him. That tree was never cut into timber or firewood. It lay where it fell. Other strong men in the neighborhood came and tried to lift the tree. They could not. Why? Because they did not have the incentive that Peter had. Nor could Peter himself ever lift the tree again. The incentive was gone.

You have all seen athletes at times "play over their heads." Why? Because of the challenge and its acceptance.

It is men who have counted struggle as a blessing who get the big rewards of life. As Emerson

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said, "God keeps an honest account with men."

The hard surgical cases, where life hangs on a heart beat, do not go to the dilettante surgeon. The tough engineering problem, like building a bridge across a mighty river, does not go to the engineer who has always looked for the easy jobs. And the same for lawyers and top executives in business.

If at times you feel that you have not had the same chance that others have, ask yourself what chance did Abraham Lincoln have? Remember that "it is not so much the size of the dog in the fight that counts, but the size of the fight in the dog."

You young men face a time of struggle with an enemy of your country more dangerous than King George III in 1776 – the godless Caesars of atheistic communism. Face up to it. Lick it. Put it and all its teachings out of our schools, churches, public affairs, and private life. What our fathers bequeathed us is still "the last best hope of earth." Save it for your boys and girls.

Remember robust Robert Browning: "I count life just a stuff to try the soul's strength on, educe the man."

Remember robust Robert Brown- and the old Greeks "who ever with a frolic welcome took the thunder and the sunshine" – the hard hours with the same zest as the pleasant ones.

Remember the poem of the frontier:

> I dream no dream of a nursemaid state
> That spoons me out my food.
> No, the stout heart sings in its strife with fate,
> For the toil and the sweat *are good.*

• • •

IDEAS ON LIBERTY

Freedom To Develop One's Own

OF ALL THE INDIVIDUAL RIGHTS which our forefathers handed down in their legacy to us, none perhaps has been greater nor more fruitful to our society than the traditional right of every American . . . to use and enjoy his individual freedom; and the incentive to develop to the highest possible degree his personal creative talents.

IRVING S. OLDS, *The Thousand Miles of Lao-Tse*

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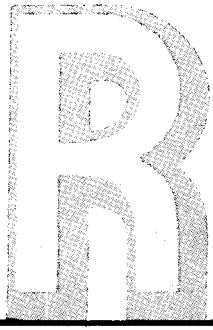

RICH *but Restless*

CUBA is enjoying the greatest prosperity in its history. The Cubans have an economic boom going which has pushed per capita wealth to a new peak, the highest of any tropical agricultural nation in the world. The national budget is in balance for the second year, the national income is at an all-time high, foreign capital is pouring in. And Cuba faces the most serious political revolt it has known in more than a decade.

The seeming contradiction of high prosperity and bitter revolt may seem slightly remote to American Midwesterners, but it has a direct bearing on their pocketbooks. For those pocketbooks are drained eternally by a federal government which has adopted as its official philosophy the idea that the world's backward nations will immediately settle into ways of peace and contentment if only they can achieve economic security. The idea is the whole reason for the economic phase of the foreign aid program.

Cuba's President Fulgencio Batista may or may not be correct in declaring that the armed revolt against his government is entirely a communist movement. It is certain, however, that if communists are not at the root of the opposition, they at least are feeding it strongly. Their following in Cuba has not declined; it has rather expanded as the nation's economy prospered. They are at their strongest in the eastern end of the country – center of the present revolt. And it seems worth noting that this is the richest part of Cuba. The western portion, where revolt has not taken hold, is the poorest.

Whatever the motivation for the Cuban unrest, it is a stark demonstration of the error of thinking that we can make everything right in the world by making everybody rich. Building steel mills in India, dams in Iran, or factories in Ethiopia will not lessen by one iota the chances of communist subversion in those

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places. Ignorant people are not made less ignorant by placing a dollar to their pocket. Basic political philosophies are not changed by running a highway through a village. It is not the uneducated but the too hastily educated who succumb to communism.

The underlying fallacy of the American economic aid program is the belief that the poor are communism's chief dupes. The fact is that communists themselves have little use for the poor and the uneducated, except in propaganda. They recruit their members from the educated ignorant, from the ranks of the eternal sophomores. Their appeal has two prongs, one pointing to the scheming opportunist, the other to the impractical idealist who visions himself as a leader changing mankind into a single pattern.

It is all right with the communists if we want to spend ourselves bankrupt, fighting them on the material level when their own appeal is completely ideological. They already know what we should have known, and what Cuba should show us anew – that prosperity cannot put a cork in communism. Our only effective weapon is the one we have used the least, the appeal to the yearning in every person, rich or poor, for liberty as an individual.

With foreign aid, we try to substitute dollars for sense. It won't work. • • •

Editorial from *The Indianapolis Star*, July 15, 1957.

IDEAS ON LIBERTY

Revolution Without Reason

THE DANGER TO WHICH THE SUCCESS OF REVOLUTIONS is most exposed, is that of attempting them before the principles on which they proceed, and the advantages to result from them, are sufficiently seen and understood. Almost everything appertaining to the circumstances of a nation, has been absorbed and confounded under the general and mysterious word *government*. Though it avoids taking to its account the errors it commits, and the mischiefs it occasions, it fails not to arrogate to itself whatever has the appearance of prosperity. It robs industry of its honors, by pedantically making itself the cause of its effects; and purloins from the general character of man, the merits that appertain to him as a social being.

THOMAS PAINE, *The Rights of Man*

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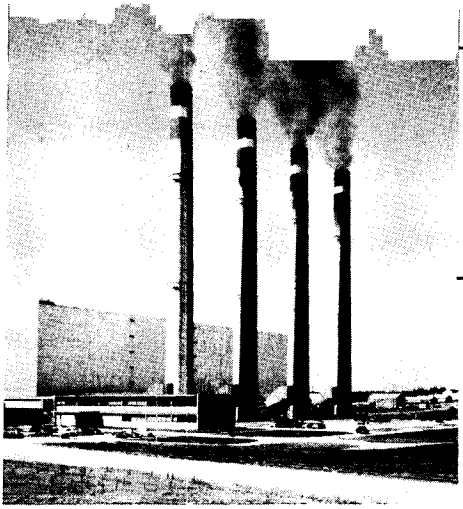

the SEEN and the

This is a government power plant.

That which can be seen resembles the private plant, opposite; the design, construction, and generating machinery are quite alike. There are, however, *unseen* aspects of this government-in-business equation that do not appear in the picture.

THE UNSEEN:

- Compulsion used to gather capital for plant's construction, government having no other means of financing.
- Politically induced low power rates.
- Resulting deficits.
- Forcible collection of the wherewithal from the income of all citizens to defray the deficits.
- Disregard of freedom of choice in investing the fruits of one's own labor.
- No real ownership by the citizen of that which his money has bought, because disposal or sale of his share by him is impossible.
- An enterprise that makes no contribution toward the proper functions of government – restraining and penalizing fraud, violence, and predation – for government does not collect taxes from itself to finance itself.

NO PHOTOGRAPHS can show the injuries which compulsion inflicts or the moral rights that are violated or the ingenious investments and charities millions of taxpayers might have made with these funds had they not been coercively taken from them. Yet, these unseen relationships between members of society are as real and as much a part of the government-in-business equation as is the reinforcing steel in the building.

It's when the unseen aspects of government intervention *aren't* comprehended that all our photographs are predestined to be of government enterprises, as in Russia.

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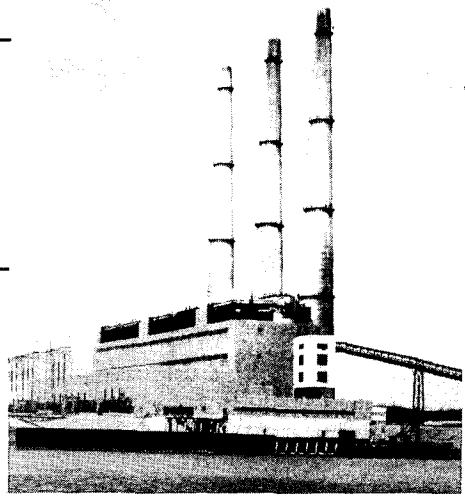
LEONARD E. READ

UNSEEN



This is a private power plant. ▶

That which can be seen looks like the government plant, opposite. Visually, it's a case of tweedledum and tweedledee. There are, however, *unseen* aspects of this private-business equation that do not appear in the picture.

THE UNSEEN:

- Countless producers freely investing their saved earnings – as freely as they might choose a can of tomatoes from the grocer's shelf.
- Creative persons as willing partners in the enterprise, possible only when there is free exchange of private property.
- Individual ownership, since each investor can sell his share if he chooses to do so.
- Voluntary capitalism bringing forth the productive effort of other workmen while the providers of capital continue in their own specializations.
- No authoritarianism invoked.
- Released creative energies and uninhibited exchanges enhancing the material and spiritual welfare of owners and of everyone else concerned.
- No one doing unto others that which he would not have them do unto him – in short, the Golden Rule in workaday practice.

NO PHOTOGRAPHS can show this voluntary cooperation. Yet, these unseen relationships between men are as real as the mighty stacks that convey the annoying vapors to the safe care of the four winds.

The unseen is as important to understand as the seen. It's when the unseen of private property, free market principles *are* comprehended that we head in the direction of a nonauthoritarian, nonsocialistic, free, and progressive America. • • •

Mr. Read is President of the Foundation for Economic Education.

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LET'S FACE IT

HARLLEE BRANCH, Jr.

IN 1955 – the last year for which complete governmental statistics are available – the investor-owned electric companies paid nearly $1¾ billion in federal, state, and local taxes. These tax payments amounted to 23.7 per cent of their total electric operating revenues. Generally speaking, taxes constituted – as they have for a number of years – the largest single item of operating expense of the investor-owned utilities. In the case of my own company, for example, tax payments represented $2.54 per share of common stock, whereas net earnings amounted to only $1.53 per share.

By contrast, the governmentally-owned and governmentally-subsidized power organizations paid no federal income taxes at all, and their total taxes – including what some of them conveniently term "payments in lieu of taxes" – amounted to only 1.9 per cent of electric revenues in the case of TVA; and to only 2.82 per cent and 2.89 per cent, respectively, for the rural electric cooperatives and the so-called Class A and B publicly-owned utilities, representing 70 per cent of all nonfederal systems, including municipals.

This is the rankest sort of tax favoritism, and I doubt whether the rank and file of its beneficiaries are fully aware of it. The point generally glossed over by advocates of government power expansion and generally overlooked by the public, is that this discrimination operates not alone against the electric companies and their investors but directly against the 80 per cent of American power consumers who pay the discriminatory taxes as a part of their electric bills – only to have their tax payments, in part, used to supply so-called "cheap government power" to a minority of 20 per cent of the people through subsidized power organizations.

Within the past few months, the Public Service Commission of In-

Mr. Branch is President of The Southern Company. This is an excerpt from his address of June 5, 1957, before the Edison Electric Institute convening in Chicago.

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diana has uncovered a special financial gimmick by which some governmentally subsidized power groups maintain their pretense of "cheap public power" and enrich their members at the taxpayers' expense. Reviewing the annual reports filed with it by the rural electric cooperatives of that state, the Indiana Commission discovered that through tax exemptions and by borrowing from the federal government at an artificially low interest rate of 2 per cent, some of these organizations have accumulated large surpluses which they are using to purchase government bonds at interest rates considerably higher than the same cooperatives pay to the federal government as borrowers. And the profit thus realized is completely free from federal income taxation! This is certainly one of the most ingenious financial operations of our time, but one that the American taxpayers will hardly condone.

My primary purpose in mentioning these tax discriminations and governmental subsidies is not merely to point out their magnitude or their inequity but to underscore a further fact which I am afraid has sometimes been overlooked even by members of our own industry – namely, that these tax discriminations and the other forms of governmental favoritism cannot, *and will not,* be limited either in geography or in number of beneficiaries. Like a cancer, they will grow and grow until the whole tissue of our American economy is infected unless a presently-apathetic citizenry can be made to see that they contravene the basic concepts upon which our nation and our free enterprise economy are grounded.

Two recent events will serve to illustrate what I mean:

Early in May, a leading American metals manufacturer, now operating a major plant in the Muscle Shoals-TVA area, played host to an impressive group of industrialists from upper New York State who had been invited, according to *The New York Times,* to see "the pot of gold at the end of the rainbow" which could be achieved by North Country industrialists willing to "pull together" with public power. "The visitors learned," according to the newspaper, "how... profits have soared since the advent of public power." Apparently no one bothered to point out to these visitors to TVA-land that the "profits" made by industrialists through the use of public power are the result of tax discriminations and governmental subsidies at the expense of the taxpayers of America generally; and that if governmental operation of electric facilities through these devices may be said to produce cheap

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electricity, the same argument can be made – and in due course will be made in America as it has already been made in other countries – for the governmental operation of metal plants and other manufactories as well. This tour, so far as I know, marks the first time a leading industrialist has openly assumed the role of a public power propagandist. The illusory "profit" implicit in public power subsidies is so potent and insidious a lure that unless it is quickly and effectively stripped of its mask, more and more businessmen, struggling with today's rising costs and narrowing profit margins, will find themselves taken in by it.

But the illusion of "profit" is only one of the elements on which subsidized power feeds and grows. Another is competition. When one manufacturer is able to reduce the price of his product because he purchases power from a tax-exempt and politically-favored utility at an artificially-computed cost, we cannot be greatly surprised if his competitors seek to do likewise. A few weeks ago, a manufacturer in my own state was reported to be negotiating with an electric cooperative in Indiana for the construction in that state of a large metals plant and the joint financing of a huge electrical generating station to supply its power requirements as well as those of the Co-op's members at rates which no taxpaying utility could afford to match, assuming the Co-op obtains its funds from the government at a 2 per cent interest rate. The manufacturer in question is one of my state's most successful younger industrialists. He is a large and respected customer of one of our companies. He tells us that while the deal has not been consummated, he virtually had no choice but to seek some such arrangement inasmuch as a number of his principal competitors are already receiving power from tax-exempt and governmentally-financed power suppliers and that, because of these subsidies, they are underbidding him – even in sales to investor-owned utilities!

Let's face it. Unless we are able through courage and cohesion to alert America to what is happening to its economy, the greatest pressure for socialized power in America in the years ahead will come from hard-headed and practical businessmen who find it desirable to join the procession for the sake of "profits" and competitive position, notwithstanding their reluctance to accept subsidies and their knowledge that government ownership of power facilities poses a dangerous threat to all free enterprise. • • •

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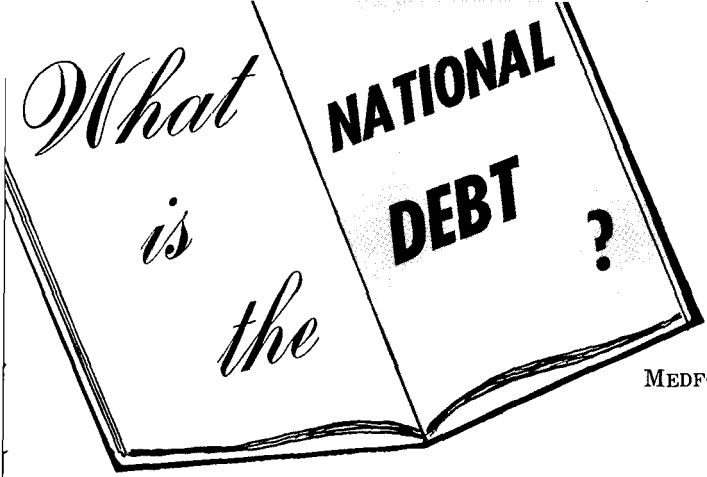

MEDFORD EVANS

NEVER HAVE SO MANY understood so little about so much. Even businessmen neglect to investigate something that seems so abstract and remote. Yet the national debt could make or break them before they ever knew it.

If the average wife or husband charged six thousand dollars on the household account, without consulting the other, there would be the devil as well as the bill to pay. Yet the average United States family owes at least that much on the recognized national debt. The vast majority do not even know they owe it, much less how the debt got there, or how it will be paid.

"So what?" is now a fashionable comment. "We owe it to ourselves."

Try this argument on your grocer sometime. Say to him: "Look, we're both Americans, aren't we? This bill is just something we owe ourselves, right? So why don't we simply forget the whole thing?" But you might not like it if your employer, who may happen to be an American too, gave you the same line on payday. Or ask the next Social Security beneficiary you meet whether he will forego his government check on the ground that *"we get it from ourselves,"* and that therefore it doesn't really matter whether we get it or not.

The analogy is perfectly just. It does matter, of course, whether you pay the grocer or the boss pays you, even though the money does not move out of your community. It matters in exactly the same way whether Social Security benefits, veteran's benefits, or government salaries are paid, even if the

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money merely circulates around within our national boundaries. For these payments are due, not to all of us collectively, but to *particular individuals* among us who have performed certain services or otherwise met certain stipulated requirements. Similarly, the national debt is owed not to "ourselves" collectively, but to particular individuals among us who have bought government bonds, or to corporations in which particular individuals among us have invested savings, or to banks where particular individuals among us have made deposits. If the government should repudiate its debt; if the bonds representing that debt, which the banks carry as assets, should become worthless, and the banks should fail; then it is particular individuals among us who would lose, in *varying amounts*.

Owe It to Ourselves

There is great danger in the wide public acceptance of such a gliberalism as "we owe it to ourselves." Because this sort of teaching has been so common in recent college textbooks in economics, we cannot take it for granted that even businessmen understand how totally fallacious such reasoning is in a "free enterprise" society. The assumption that when the government debt rises five billion dollars, the whole economy is not worse off, because people within the same economy are owed five billion dollars more, makes no sense unless the government controls the whole economy without any regard for the rights of separate businesses or of individuals. It makes no sense unless individuals are totally absorbed into the state. To the extent that it does make sense, to exactly that same extent are we already a totalitarian nation.

As would be expected, the Soviet government has carried this theme of "we owe it to ourselves" to its logical conclusion. There a government bond can no longer be regarded by the individual owner as an investment for his own benefit, but merely as a contribution by himself to the benefit of the state as a whole. Professor F. D. Holzman points out that the Soviet government looks on bond sales "as a regular source of revenue, on a par in this respect with taxes . . . Individuals are compelled to buy bonds under conditions . . . which would make such a purchase, if voluntary, an irrational economic act."

When any government increases its national debt more and more, with less and less regard for how it could ever make payment, under the cruelly deceptive excuse that the size of the debt doesn't

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matter because "we owe it to ourselves," one ultimate result is that bond sales lose their voluntary character which distinguishes them from taxes. Then, and only then, it really becomes true that "we owe it to ourselves." Then the government may, at will, declare a moratorium on all its bonds, or on any particular issues it selects for the purpose, as the Soviet government has now done. By that time the individual bondholder has lost all of his rights as a creditor of his government.

But on the way to this fatal end there are many sad intermediate results. Every increase of a national debt, beyond a government's knowledge of how it could pay in full and a determination to do so, is a partial repudiation. Every partial repudiation effects a decrease in the value of that government's obligations, including its money in circulation. And every such decrease constitutes clear and widespread robbery from its individual citizens, business firms, and banks. We have seen our own government quite literally steal billions of dollars from its own citizens by this process over the past two decades. If you doubt this, ask yourself what that thousand dollars you put in a savings account twenty years ago will buy today, against what it would have bought then, *and who got the difference?* The only answer to that last question is "your federal government." The process continues, with no cessation in sight, and historical experience clearly proves that it *will* continue unless the government is forced by the people to start reducing its debt rather than increasing it.

Adam Smith said in 1776: "Where national debts have once accumulated to a certain degree, there is scarcely I believe, a single instance of their having been fairly and completely paid." The evidence to support the truth of this statement is many times greater today than in 1776. And that our national debt has reached that "certain degree" there can be no doubt. For the admitted debt of some 275 billion dollars is only a fraction of the true whole. Panic over the amount we owe, as on the part of any debtor, would be bad. But complacency is worse. Complacency now means panic later, for the debt will not go away just because we do not look at it. Let's look.

Promises To Pay

How big is the national debt? To answer that we must first answer another question: What is it?

It consists of promises to pay, commitments to spend, and obligations assumed.

The promises to pay begin – but

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only begin – with the government bonds in the formal or recognized national debt. Let's accept the round figure of 275 billion dollars for that amount.

Agency "Funds"

"Oh," the we-owe-it-to-ourselves experts at once interrupt, "but about 54 billion dollars of this debt the government owes to its own agencies, which hold its bonds, such as those which provide social security, veteran's insurance, unemployment compensation, and other benefits which have been promised by Congress to defined groups among us." We ask them to consider this analogy. I have put aside one thousand dollars to finance my son through college next year. Meanwhile, I have "borrowed" this one thousand dollars to make the down payment on a new car. I have put an "IOU" in the box to show that I borrowed it. I now owe the money to myself. But the trouble is that, since my son is actually going to college, I shall have to pay back that one thousand dollars just as surely as if I owed it to somebody else. And the federal government must pay up that 54 billion dollars in bonds, which it owes these agencies, just as surely – and a lot sooner – than if the bonds were held by banks in London.

Then we come to the unexpended portion of approved federal budgets. Here the amount fluctuates with an annual cycle, being greatest at the beginning and least at the end of a fiscal year. Let's use another illustration. Suppose you have promised a relative one thousand dollars per year, and that it is your custom to let him draw against your account at intervals during the year. At the beginning your obligation is one thousand dollars. At the end of the year you might owe him nothing, or he might have an accumulated balance if he has not drawn his full allowance. Your debt would fluctuate within a yearly cycle. In this case you might find that it *averaged* five hundred dollars, plus any leftover balance from previous years.

Legal Spending

This is somewhat the way it is with Congress and the various federal agencies. They spend under a variety of legal authorizations. According to the federal budget for 1958, as submitted by the President, the amounts available for all agencies, as a total of accumulated balances and current authorizations, was slightly more than 143 billion dollars for each of the fiscal years of 1956, 1957, and 1958. That is, legislation had been enacted which, in 1956, commit-

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ted the United States to the eventual expenditure of 143 billion dollars. A small part of that had to be spent by June 30, 1956, or the commitment would lapse, but the major portion could be carried over into a new fiscal year. As a matter of fact, 66.5 billion of the total was spent by June 30, 1956; 3.6 billion ceased on that date to be available; *and* 72.9 *billion was carried forward as still available in the fiscal year of* 1957. This wasn't money that anybody had. This was a commitment by the federal government to provide that much money for these agencies to spend. Then the 1957 budget authorized 70.5 billion dollars in new funds, putting the total amount available during 1957 back up to 143 billion. This process was expected to be repeated by expenditures and appropriations for fiscal 1957 and fiscal 1958.

It would seem then that at present, from the experience of the current three-year period, our outstanding commitments in this category fluctuate between 70 billion dollars and 140 billion dollars (still using very round numbers), with an *average commitment* outstanding of 105 billion. This is not money that has been collected from the taxpayers, though much of it, of course, will be. This is *debt,* to which the federal government has put its name on the dotted line. Adding these 105 billion to the previous amount, we now have a subtotal of 380 billion dollars. And we still have a long way to go.

Wards of Government

For we come next to that increasingly important part of the national debt, the cost of living which so many now think the government owes them. Or which some bureaucrat believes the government owes somebody. For if the government does not owe somebody a living, then the bureaucrat is out of a job; and the more living he can find for the government to owe to more people, the bigger his job becomes.

Let's go back to the analogy of financing my son's college education. There is more trouble in this situation than my merely having to repay the thousand dollars I have borrowed from myself. For the thousand dollars turns out to be nowhere near enough, by the time he gets to college, to cover his expenses. So if I am really committed to see him through, then realistically speaking I owe much more than the thousand, and shall have to provide much more in subsequent years. That is the way it is with the federal government, in connection with its "dependents," except that the commitment is far more irrevocable. It

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has obligated itself to provide for Social Security. Also Veterans. Also Agriculture. And Public Health. And Education. The federal government has very extensive financial commitments in all of these fields, and others. No one seems to know – apparently no one can know – precisely how much we owe in this field, as a long-range debt over and above current appropriations. But everyone who has looked into the subject knows that it is an awful lot. Let's begin our own audit with the Social Security obligation.

Social Security

One reason why we can't find out just what we owe for Social Security is that the whole commitment is so weaselly. The average worker probably thinks that he is participating in a kind of government-sponsored mutual insurance program, and that he will some day get back what he has put into the Social Security system, together with the contributions of his employer on his behalf, and some interest. But in fact it seems that the worker's and employer's contributions are both treated by the government as another tax. Since this is a flat percentage of *the first* $4,200 of wages, on top of whatever other tax on earnings the worker pays the federal government, the arrangement works out as a means of applying an upper-bracket tax rate to a lower-bracket income. The benefits under Social Security are determined independently of the individual employee's contributions. Basically, they are determined according to need, but need as categorically defined, not as felt or demonstrated in individual cases.

The "Need" Grows

Relating the benefits to need has the result that the system cannot be actuarially sound, no matter how often Congress declares that it must be. An actuarially sound commitment is one to pay in the future a certain number of dollars, the commitment being based on experience tables. Against the future payment a certain number of dollars can be put aside on a regular schedule. An insurance company will guarantee you an annuity starting ten years from now; it will not guarantee *to pay your rent and buy your groceries no matter what their cost may be.* But Social Security is, in effect, a promise to *take care* of the aged and others. If there is serious inflation, benefits will have to be increased. Of course, at that time "contributions" can be increased too, but the persons receiving the increased dollar benefits will not be the ones paying the increased dollar costs. The justification for

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increasing the Social Security tax on active workers in, let us say, 1975, in order to protect from the consequences of inflation the workers who are then retired, will be that the retired workers will *need* the increased benefits, and the active workers will be *able* to pay the increased "contributions." If this program is actuarially sound, then so is Karl Marx.

Unenforceable Claims

It is true that the Social Security law does not technically regard the apparent and presumptive beneficiaries of the system as having enforceable claims. *A worker covered by Social Security has no equity in the amount accumulated by his and his employer's contributions.* He probably thinks he has, because of the widely publicized Social Security "accounts." But where such accounts of a worker's earnings are maintained, as by the Bureau of Old-Age and Survivors' Insurance, it is evident that the purpose is not to show how much the worker has paid into the system as a total establishing a certain equity claim, but to show the level of income to which he has been accustomed, and thus to indicate his need. Congress can alter the schedule of benefits at any time, without reference to the amounts paid in by workers or employers in the past. The beneficiaries-to-be are not creditors, and technically there is no debt.

But the fact remains that present workers have now been promised by the federal government, by statute, that when they reach a certain age, they will receive certain benefits. Merely to state that future Congresses *can* or *might* take away these statutory assurances, which so many voters now regard as actual equities, is to show the absurdity of any such expectation. Future Congresses *could,* also, if driven by financial desperation, declare a moratorium on redemption of government bonds. But the clear fact is that Congress is not going to do either one, unless and until we reach a state of repudiation of the national credit that amounts to virtual bankruptcy. We are committed, in writing, by statute, to pay Social Security benefits on at least the level presently scheduled. That commitment is no more kept from being a part of the national debt by the possibility of repudiation than is any unspent appropriation for the purchase of jet planes – which Congress *could* revoke at any time. And considering the number of beneficiaries, and hence of voters, involved, the likelihood of any such revocation of Social Security promises is infinitely less.

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Unhatched Tax Revenue

There is another argument also advanced against considering the liability for Social Security benefits as a public debt. This is that the same law which promises the benefits also establishes the "contributions" out of which the benefits are supposed to be paid. That argument is so silly that another simple analogy should dispose of it with ease. Suppose I have bought, on the installment plan, ten thousand dollars worth of juke boxes and have put them all out in profitable locations. I have eight thousand dollars in monthly installments coming due on these music machines during the next year. And my auditor is doing my books. He puts that eight thousand dollars down as a liability. "Oh," I say, "but that's not a debt, because I am going to have the money to pay it. In fact, the very machines for which those installments will be due will provide me the money to pay them. So you can't call that a liability." The auditor would merely laugh at me. And that's what we should do when any government economist says you can't call the promised Social Security benefits a part of the outstanding national debt, because the government is going to be able to collect the taxes to pay them when they come due. Maybe it is, and maybe it isn't. We are going to talk about the total government assets with which to meet its liabilities presently – including this power to tax. But right now we are talking about the total of the liabilities which the federal government has to meet, and its Social Security commitment is certainly a part of that total debt.

$350 Billion Liability

So how much is this particular liability? The amount can be guessed only within very wide limits. But Dillard Stokes, who probably comes as near to being a dependable auditor in this muddled affair as anybody can, cites various eminent authorities on the subject, in his book, *Social Security – Fact and Fancy*. He concludes that promises which had already been made by 1955 would require at least two hundred billion dollars, and possibly as much as five hundred billion dollars, to make them good. Splitting the difference between these two figures, as about the only course available, we establish 350 billion dollars as the liability, to which we are already *definitely* and *presently* committed, under our Social Security legislation. And most of those payments will come due long before some of our bonds now outstanding.

Adding this amount to the former subtotal of 380 billion, we

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now have a new subtotal of 730 billion dollars.

Contingent Liabilities

To consider the full amount of national debt arising out of the cost of the living which our federal government supposedly owes to so many groups, we would have to treat the current annual payments we are now making to those groups as interest on an imaginary fund set up for that purpose, and project the size of the fund, and hence of that liability, backwards from the amount of "interest" required. And this liability, equal to an endowment fund which we do not have, would be soundly classified as debt, to the extent that we are morally, politically, and practically committed to the continuation of these payments. But let's not. For one thing, there is at least theoretically more possibility of our being able to cut out or cut down these supports of veterans, or farmers, or education, or health programs, than there is in the case of Social Security. And for another, the figures become so astronomical if this process is carried out logically, with reference to the style of government support to which our countrymen have now become accustomed, that they cease being significant. So we'll tabulate the debt arising from these areas of welfarism only as the parts of it show up as specific amounts in appropriations, which we have already considered, or in contingent liabilities, which we should look at next.

As of dates between June 30 and December 31, 1954, the Treasury itself tabulated "contingent liabilities" of the federal government, outside of the direct federal government indebtedness subject to the statutory debt limit, amounting to slightly over 291 billion dollars. It cautioned against adding the *entire amount* of these obligations to the national debt, because of possible overlapping and misleading indications. So we have to explore inside this confused confession a bit further.

Paper Currency

By far the most difficult of these contingent liabilities to discuss is, strange to say, the paper currency outstanding. About the status of the "United States Notes," the "National Bank Notes," and the "Federal Reserve *Bank* Notes," which remain in circulation to the extent of some 550 million dollars, with a frozen gold reserve of 156 million dollars against the first classification, there can be no argument. There is a clear obligation here of about 400 million dollars, which is outside of the statutory debt limit but still a part of the public debt. At the stratos-

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pheric level where we are now cruising, however, 400 million dollars either up or down makes very little difference. So we can simply forget about this "trifle," and give our attention to the real problem of some thirty billion dollars outstanding in Federal Reserve Notes.

Then an argument really starts as to whether this paper money is a liability, or not. For in practice, and under all normal or even near-normal conditions, the liability of the government for the value of these notes is so remote as to be negligible. The Federal Reserve Banks which issue these "bills," as we ordinarily call them, have a fractional gold reserve of 25 per cent against the quantity outstanding. They have other collateral, including some commercial paper but consisting mostly of government bonds, equivalent to well over the remaining 75 per cent. And the commercial banks which own the Federal Reserve banks are liable, to the extent of four times their respective stock holdings, for any shortage of the Reserve banks in ever meeting their obligations. All of these assets would have to prove inadequate before the U.S. Treasury's liability would have any meaning. Apparently for these reasons, and despite the exception represented by the tabulation given above, the Treasury itself does not ordinarily in its statements on public debt, list Federal Reserve notes as even a contingent liability.

Responsibility To Pay

But we are not considering at the minute whether, under normal or near-normal conditions, the federal government might be called on to pay these obligations. Our question is whether it has that *responsibility* under all conditions. And to that the answer is clearly yes. The July 5, 1955, *Tax Review,* of The Tax Foundation, Inc., states categorically: "The Federal Reserve notes, as well as amounts due depositors in the postal savings systems in the United States and the Canal Zone, are definitely contingent liabilities of the government." There are plenty of other authorities to support a tabulation based on that view. What is far more important, however, is that circumstances which could make that remote theoretical liability a very near and practical one are not nearly so unlikely as some of the economists take for granted. The reasons why this is so are interesting and disturbing.

Take one of the Federal Reserve notes out of your pocket—if the tax collector has left you one—and study it. The big type says: "The United States of America will pay

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to the bearer on demand Ten Dollars." Only in the very small type does the Federal Reserve System, which issued this bill, get into the act. That type says: "This note .... is redeemable in lawful money at the United States Treasury, or at any Federal Reserve Bank."

Redemption Privileges

Of course both statements are, and since 1933 have been, false and misleading. Nor is this an *obiter dictum,* dragged in because of any pleasure in criticizing the federal government. The point has direct bearing on the problem under consideration. For it doesn't make sense to speak of redeeming a ten dollar bill for "lawful money" if all you get in exchange is another ten dollar bill exactly like it. "Lawful money," as used here, either means gold or it means nothing. And the U. S. Treasury will *not* pay to the bearer on demand the value of that ten dollars in gold unless he is a foreigner; American citizens have been denied the privilege of redemption. It is undoubtedly because of this fact, that so far as the source from which any sizable demand for redemption might normally be expected, the Federal Reserve does not have to give the demanders anything but more "money" of the same kind and origin, that the belief is so prevalent as to the government's contingent liability being meaningless.

This discounts too much and too easily, however, another source of demand. Any "recognized" foreign government or foreign central bank can take any of these Federal Reserve notes it gets its hands on, and insist that our government redeem them *in gold.* (We do not expect the Right Honorable Harold McMillan, nor even the Right Dishonorable Nikita S. Khrushchev, to show up on the steps of the United States Treasury, clutching a sheaf of these notes in his fist; but the mechanics of redemption do not concern us here.) Our Federal Reserve notes can pass into the possession of a foreign government through the commercial transactions of its citizens; through the American cash spent or converted in that country by American tourists; through an avalanche of bills being mailed by immigrants back to relatives in Europe; and in many other ways. And that is without even considering any such bizarre idiocy as giving another government our plates and ink and paper to print for themselves as much of our currency as they wish, which has already happened once and hence could happen again. Just let the value of the American dollar keep on sinking, in relation to the goods which

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must be traded for them, through the monetization of our debt and other inflationary pressures. Then this particular aspect of the resulting "flight from the dollar" could become serious indeed.

Federal Reserve Notes

Now we know that the U.S. Treasury does not redeem Federal Reserve notes out of its own funds, but only as an agent of the Federal Reserve system, out of a 5 per cent redemption fund posted with the Treasury by the Reserve Banks for that purpose. We are told that the sentence in the Federal Reserve Act making these notes a Treasury liability was written into the Act when it was passed, solely to please William Jennings Bryan and his followers, without changing any parts of the law setting forth the methods of issuing or redeeming the notes. And that the direct promise of the United States to redeem these notes, which we quoted above, is printed on these bills solely because of that "superfluous" sentence. Also that, for this reason, the names of U.S. Treasury officials are "improperly" placed on these notes, which should bear the signatures of the Federal Reserve Bank presidents.

But a foreign government, especially in a time of great stringency, or if and when there is a deliberate plot afoot to make all of the trouble possible for the United States, is not going to show the least concern as to what the arrangement is between our government and the privately owned Federal Reserve System. Actually that arrangement suggests this analogy. If I give a man with whom I do business a power of attorney *to sign my name* to promissory notes, which I must redeem if presented to me, the fact that he has or is supposed to have the resources to redeem them, and to save me from loss on any I redeem, may make them technically only contingent liabilities of a remote degree for my broad-minded bookkeeping department. But any smart outside auditor is certainly going to add the total amount of these notes outstanding to what I owe, no matter how many footnotes he puts at the bottom of his audit. This decision is all the more justified if the resources which my friend, who issued these notes, has with which to redeem them, consist primarily of slightly more decorative promissory notes of mine, called bonds, which I signed myself. And the decision becomes imperative if the most hard-boiled creditors who are likely to present these notes can demand redemption in a medium – gold – of which my friend and I together have enough to meet only 25 per

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cent of the notes outstanding, and for the whole further supply of which particular medium I alone am responsible.

In view of these considerations, of the dishonesty on the part of governments with regard to their national currencies which is rampant all over the world today, and of the whole foreboding international outlook, we think it would be folly not to consider these 30 billion dollars of outstanding Federal Reserve currency as a very serious contingent liability of our federal government. And it should be so weighted in any estimate of the total risk to be faced, in connection with the government's total contingent liabilities of all kinds.

Guaranteed Mortgages

Returning to the Treasury's own tabulation of contingent liabilities, with which we started, we find that approximately 172 billion dollars of the amounts listed represented the total insurance in force by various government insurance agencies, 106 billion being outstanding on the part of the Federal Deposit Insurance Corporation alone. And while a bad depression, with banks going broke around us, would make this obligation a very real and a very costly one, the fiscal record of the government insurance agencies has on the whole been surprisingly satisfactory to date. But when you leave insurance and look at some eighteen billion dollars in mortgage loans which the Federal Housing Administration has guaranteed, and consider what tiny equities many of the owners of these homes have in them because of the small down payments that were required, you can readily imagine the wave of foreclosures that the first winds of a depression would roll up against these properties. The resulting cost of the government of making good its guaranties of the mortgages, under the forced-sale conditions which would follow, would be sizable.

In between these two extremes, as to the nature of the government's risk and obligation, lie such items as "agreements to make or insure loans, purchase mortgages, or make other payments." As of November 30, 1954, these amounted to approximately eight billion dollars. And, of course, these figures, and those for almost every item in the whole 291 billion dollars of contingent liabilities, has increased a great deal since 1954. New commitments of the Federal Housing Administration, for one illustration, were 4 billion, 648 million dollars in 1954; 6 billion, 967 million in 1955; and 8 billion, 300 million in 1956.

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But trying to arrive at a fair figure as to the *realistic* risk-commitment of the government, that is not duplicated elsewhere, out of the 291 billions of theoretical liability, is a difficult undertaking. We should realize that any overextended debtor has to expect and fear that the "worst" will happen, rather than the "best." And if the worst hurricane of hard times, foreclosures, and losses should hit this whole government insurance-guaranty-credit program, that prudence would warn us to look out for, it seems likely that the government would do very well indeed to keep its total losses in this category down to a hundred billion dollars. So, adding that wildly round figure to the previous amount, our new subtotal becomes 830 billion dollars.

A Guess, at Best

The net conclusion, that has become disturbingly more convincing the further we have pursued this whole subject, and especially during the analysis of this last category of liabilities, is that nothing better than a rough guess as to the total national debt is even possible. My assignment in this article was to make a fairly close estimate of that total. Not only have I not done so, and now admit that I can't do it; my study of the subject has convinced me that it probably can't be done. We are in the position of a debtor who has made so many promises, of so many kinds, to so many people, that no auditor can possibly determine his exact financial position. All we can really do is to determine an "order of magnitude." That order of magnitude is "from five hundred billion to a thousand billion dollars"; and an intermediate figure of 800 billion dollars would seem to be a fair and conservative surmise.

Government Assets

"Again, so what?"

Well, for one thing, the November 1956 *Monthly Letter* of the First National City Bank of New York quoted an authoritative source as estimating that the value of total government assets, including military equipment, at the end of 1949, was 165 billion 700 million dollars. The *Letter* estimated that these total assets today would reach 200 billion dollars. This includes the more than 400 million acres of public lands, and buildings by the thousand, from the Pentagon to the most remote post office. It includes the gold at Fort Knox, the silver in the Treasury, and the brass in the White House. It includes stock in government-owned corporations, butter in underground caves, and equipment with which to make atom bombs. But with 200 billion in assets and 800

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billion in liabilities, your federal government would be hopelessly insolvent, if it were not for one asset which the bank mentioned, but did not capitalize – *the power to tax.*

How much is this last asset worth? There are two limits on it: (1) the ability and (2) the willingness of the taxpayers. One estimate, which seems to be as authoritative as any we could find, gives the total financial resources of United States taxpayers in 1954 as 588 billion 400 million dollars. The same authority gives a grand total of the current value of all property of every kind in the United States in 1948 as 797 billion dollars. If the latter figure includes property owned by the federal, state, and local governments, as well as nontaxable property, as it apparently does, the figures seem to jibe fairly well. And if the first amount has increased by 3 per cent, compounded annually, then United States taxpayers have a total net worth today of 643 billion dollars. For the federal government to make itself barely solvent tomorrow, therefore, it would have to take all but 43 billion dollars of everything of every kind which every taxpayer in the United States owns. That prospect certainly raises the question of the second limitation, the willingness of the taxpayer.

Willingness To Pay Taxes

In connection with the current budget fight the present administration is receiving a hint that such willingness is not inexhaustible. Perhaps President Eisenhower should have remembered the twelfth chapter of I Kings, where it is told how Rehoboam, the son of Solomon, being importuned by his people to make lighter the taxes of Solomon, chose rather to follow the advice of "the young men who were grown up with him." And so he replied to his subjects: "My father hath chastised you with whips, but I will chastise you with scorpions." The result was that the ten tribes of Israel "rebelled against the house of David unto this day."

Of course, the willingness to pay taxes depends a great deal on how the tax money is to be spent – just as the willingness to help any other debtor depends on his determination to tighten up on his expenses and to put his affairs in order. If our federal government, reversing its attitude of callous indifference to the consequences of its financial folly, would discontinue its wild spending and profligate waste, and begin to act like a responsible debtor seriously concerned with the threat and the consequences of bankruptcy, there is no doubt that the taxpayers

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would have both the ability and the willingness to see it through to solid ground again. There is nothing so fatally wrong in our present situation, as yet, that a few years of common sense and honesty in Washington couldn't set it right.

But what happens otherwise? The answer has been given a hundred times in history, and is being given most clearly in Chile right now. From 1870 to 1930 that country lived under a gradual "inflation," during which the value of the peso dropped from ninety cents to twelve cents in United States money. Then in 1930 there began a rapid increase in government participation in, and control of, the economy, and in social security and other welfare programs. This started the public debt soaring and speeded up the inflationary process. During that decade the peso dropped in value from twelve cents to three cents. It was held fairly steady at that level, by wartime conditions — mainly the overwhelming demand for copper, the backbone of the Chilean economy, at prices which kept the government's budgetary deficits from getting completely out of hand — until 1947. Then natural economic laws began to work again, while the government continued, expanded, and intensified its previous policies — exactly the same policies our government is following today. The slide of the peso down hill started again at a faster pace, and in 1950 it fell off the ledge. By 1955 the peso had dropped in value to less than *one-tenth* of what it had been only five years before.

What is our national debt? It is the greatest danger our country and our people have ever faced.

• • •

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WHAT PRICE SECURITY?

Security prescribed by government exacts a toll, in the form of dwindling personal initiative for which there is no sound substitute.

VOLLIE TRIPP

ONE of the interesting phenomena of our times is our passion for security. In questionnaires listing people's desires, security frequently heads the list of things dearest to the heart.

In the pursuit of security, people have placed their faith in group action – forgetting for the moment that the strength of the group, in the long run, rests upon the character of the individual.

For purposes of this text, security will mean pensions, old-age benefits, doles, and the like, either paid by the State or forced upon employers under the prodding of a paternalistic government. It does not include the many retirement systems and annuity policies, privately arranged and fully financed by their beneficiaries.

But the security arranged by the State must also be paid for, and it doesn't much matter whether it is financed by payroll deductions, direct taxes, or combinations of both.

The appeal in this kind of security is that it *seems* to give something for nothing. Who wouldn't be willing to put a few dollars a week into a fund and, after a few years, draw a pension of $200 a month for life? Since the amount of Social Security a person may draw at age 65 depends only partly on his contributions to it, many older persons today find themselves in this favored position. But for every retiree who gets more than he paid into the fund, someone will get less than he paid into it. This is elemental, and no juggling of figures – or juggled thinking – can refute it.

True, a part of these funds can be put to work at interest. But it is doubtful if the interest can pay the cost of collecting, administering, and paying them out again, even assuming that the employee couldn't (or wouldn't) put his own funds to work. Money just doesn't grow at any such accommodating rate. As a matter of fact, it has a hard time to keep pace with its own steadily declining value. During the decade from 1945 to 1955, it lost nearly half its value.

Mr. Tripp, whose article is reprinted here by permission from the June-July 1957 issue of Partners, *has retired from the building business to devote full time to travel, writing, and promotion of free enterprise.*

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The Threat to Progress

There are several kinds of state-sponsored security, but all have one thing in common. All inhibit and discourage the spirit of adventure, independence, and freedom which once distinguished the American people from others.

For those who desire the utmost in a guarantee that the State will look after them, there is a place in Northern California that should meet the most exacting tests. It has a high stone wall all around it. Folsom Prison is, aptly enough, called a "maximum security" jug, and it's almost as hard to get in as to get out.

Life at Folsom has certain drawbacks and disadvantages. Yet they differ only in degree – not in kind – from those which a state-sponsored security lays upon its subjects everywhere. Certain freedoms and prerogatives must be forfeited; things men once treasured enough to fight and die for must be relinquished.

Some time back I sought an interview with an old fellow who was making and selling a small item for a little extra tobacco money. I thought he might have a salable story. In the midst of the interview he suddenly clammed up like an abalone. Why? He just remembered something. He was getting a subsistence pension. If he made any money by his own efforts, he feared the "guv'mint" might shut off his pension.

Is it not a poignant tragedy that a once free and proud American could have been reduced to such subserviency – to such spineless docility that he was afraid to exercise one of his most basic rights? To what extent have we, as a race, a people, become intimidated, browbeaten, and softened through dependence on security and the fear that it may be withheld?

On economic grounds, the theory of state security is open to searching scrutiny since nothing is actually produced by this cumbersome and complex machine. It takes from some and gives to others. It guarantees to take care of the lazy, the improvident, and ineffectual by taking from the thrifty and hard working more than their share.

Any pension system, whether state or management operated, to be of any real use, calls for contributions so large as seriously to interfere with whatever plans the citizen might have to take care of himself. The conclusion is therefore inescapable that security is rapidly sapping our people, not only of the will, but even of the means to take care of their own needs, in their old age. I do not know which is the more serious. Men once fought savagely for

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values they are now giving up without a whimper.

Swiftly and cheerfully we are placing our security in the hands of others – of strangers, of people we have never seen and never will see. Is this a good thing? More to the point, is it real security?

Who is the most secure person any of us knows? Is he not an individual with ability and utter confidence in his ability to meet life's problems whatever they may be? Isn't that kind of security worth infinitely more than the kind conjured up by a group of social planners and poured in measured doses from a bottle into some remote and autocratic government bureau?

Admittedly, true security – enjoyed by certain individuals of greater ability or greater persistence than the average – is difficult to achieve and is steadily becoming more so. Yet it is by no means out of reach. And the rewards and satisfactions are so infinitely greater that it would seem to warrant a terrific and determined effort in the direction of that goal. And if the time should come when no one is willing to work for his own security and salvation, using the talents, abilities, and character God gave him, we may as well close up shop as a nation. We will be through.

The insidious effect of governmentally prescribed security proceeds from its compulsory nature. People have a right to give up a part of their wages, or their taxes, for future distribution in any way they choose. There are those who cannot trust themselves with their own pay checks, or who have no talent for investing their own funds. Undoubtedly the program would be widely patronized if made available on a purely voluntary basis. But to force everyone to participate, against their will, and against their better judgment, is not only palpably wrong, it is also criminally stupid. It would be just as sensible to force every citizen to buy tickets on horse races or to gamble on the Stock Exchange!

Security, a Personal Thing

Security, it seems to me, is a highly personal thing. I do not believe any State or any group can guarantee me security, any more than it can guarantee me health, character, or a pleasing personality. My security depends on many factors over which I and I alone have control.

As a responsible human being, I have no wish, nor any need to shift these prerogatives to others' shoulders. And the less dependent I become on the security promised by others, the more really secure I feel. • • •

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AN INTELLECTUAL

IN its ponderous and encyclopedic form Professor Karl A. Wittfogel's *Oriental Despotism: A Comparative Study of Total Power* (Yale University Press, 556 pp., $7.50) might have been monumentally dull. But so unique are the perspectives that open out on almost every page that the reader, his eyes widening all the time, can only react with a completely amazed interest.

Briefly, what Professor Wittfogel has done is to utilize the world's rainfall pattern as the key to societal and governmental forms. The European traditions of freedom, which were formed in the presence of sufficient water, are taken for granted by most of us. The "rainfall farmer" doesn't need outside help. But Wittfogel reminds us that vast portions of the earth depend on irrigation. Since irrigation demands the organization of vast numbers of men to dig, build, and dam, it gives birth to something which Wittfogel calls "hydraulic society." In his opinion the hydraulic basis of life in most of Asia and in parts of Africa makes for total tyranny.

Right here we are in the presence of a major intellectual scandal: Nobody before Wittfogel has seen what water – or its lack – has done to shape the politics of man. When Europe's first social theorists were conducting their pioneer studies, they were scarcely aware of the Asiatic half of the world. Knowing only the history of Europe, they were inclined to view the progress of civilization in what Professor Wittfogel calls "unilinear terms." They knew that in the ancient world economic production was based on outright slavery. Then came the feudal period when society was a matter of "multicentered" units, the manorial holdings which were worked by serfs. With the breakdown of the feudal order came the liberation of the land-bound villein. The capitalist economists thought of this as the birth of freedom; the socialists saw it as the beginnings of "wage slavery."

Meanwhile, as the Portuguese, Dutch, and British seamen came home from the East with cargoes of spices and tea, they brought with them some knowledge of an ancient world far away from Europe. This ancient world knew many tyrannies. Karl Marx and Frederick Engels, writing in the middle of the nineteenth century,

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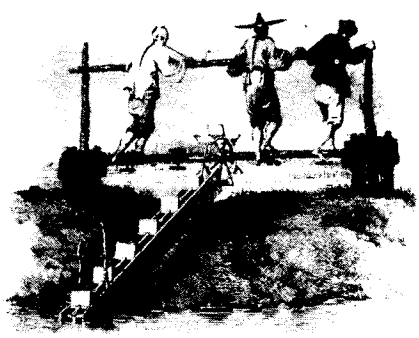
knew far more about these tyrannies than John Locke had known in the seventeenth century, or Adam Smith at the end of the eighteenth. In fact, both Marx and Engels – and Lenin after them – acknowledged a specifically "Asiatic mode of production."

But here the intellectual scandal deepens: Marx, Engels, and Lenin conveniently "forgot" what they obviously knew. In Asia it was not "private property" – or the private ownership of the means of production – that made for the "oppression" of the working classes. Nor was it any hang-over of feudalism, with its tissue of reciprocal rights and duties. It was simply the fact that the individual had no rights against what Wittfogel calls the "apparatus" – meaning the State bureaucracy. In Asia the "State was stronger than society." For generations "agromanagerial" groups had controlled the water supply, letting it flow to individual farmers (big and small) according to the autocratic dictates of a special bureaucratic class. In return for water the individual could do little but acquiesce in tyranny. What the evidence of Asia should have proved to Marx, Engels, and Lenin was that State power, not private property, is the enemy of the working man.

But the fathers of "scientific socialism" couldn't afford to see the truth. If they had followed certain leads which they themselves opened up in their earliest books and pamphlets, their case against capitalism would have tended to disappear. Wittfogel, in some interesting paragraphs, shows how precipitately both Marx and Lenin dropped their references to the "Asiatic mode of production." They were acutely embarrassed by something they couldn't admit: that the State could enslave everyone. Lenin himself was put in a peculiarly painful position, for some of his rival Marxists – Plekhanov was one – had deduced from Marx's earliest writings that nationalization of the Russian land would be a "reactionary" reversion to "Asiatic barbarism." The whole "progress" of the Russian Revolution would have been imperiled if the "Asiatic concept" were to be accepted as a reality.



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Professor Wittfogel has devoted some five hundred packed pages to his analysis of "hydraulic societies" all over the world. Wherever the State has taken it upon itself to build monumental works – canals, dams, pyramids, palaces, great walls – it has tended to total tyranny. Great numbers of workers are needed all at once to construct big ditches and to control floods; hence the growth, in "hydraulic society," of the forced labor of the corvée. The "hydraulic states" pioneered in record keeping, in the taking of the census, for when one needs thousands of workers to dig waterways one needs also to know who they are and how many of them are available. The keeping of records led to the creation of a scholar class of bureaucrats. In league with kings and priests, the scholarly bureaucrats of "hydraulic society" saw to it that property owners should be held in continued subjection by the State "apparatus." On Professor Wittfogel's evidence, no Oriental league of barons ever managed to wangle a Magna Charta from an Oriental King John. The State, as the possessor of the key to life-giving water, never let any "multicentered" power units grow to a point where they could challenge the central authority.

Give praise, then, to rain. Where "rainfall farming" is the norm, the need for or the incentive to "corvée labor" is lacking. The fact that rain falls on the Polish plain and on the mountains of Yugoslavia may be the key to the future redemption of Eastern Europe: peasants who depend on the skies – i.e., on the God of Nature – for the fruitfulness of their soil will not willingly endure the conditions that have been historically appropriate to "hydraulic society" and the "Asiatic concept."

Following the trail marked out by Professor Wittfogel, what we are now witnessing is the spread of an infection: the "Asiatic concept" is proving contagious in parts of the earth where an abundance of rainfall makes it totally unnecessary. There are other things besides the construction of great waterworks, however, through which a centralized State "apparatus" might presume to take control over an entire economy. If industry should ever become dependent on atomic energy, for instance, the same forces that created "hydraulic despotism" in Egypt, Mesopotamia, and China might tend to eventuate in an "atomic despotism" in the West. Then, instead of kowtowing to those who keep the gates of the canals, we would bow to the State authorities in charge of processing uranium, thorium, and hydrogen.

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The truly heartening thing about Professor Wittfogel's book, however, is that the author is not a fatalist. He believes in what he calls the "open historical situation." In Russia, for a brief space between the fall of the Czar's "semi-Oriental bureaucracy" and the Bolshevik seizure of total power, there was an "open situation" which might have been seized upon and exploited by true liberals. There is enough rainfall in European Russia to support a whole complex of peasant freeholds and all the other "multicentered" phenomena of a free society. It was simply the malign will of Lenin and his small band of conspirators which forced the "hydraulic pattern" of Asia on the Russia of 1917.

Today, despite the threat which a war-oriented economy entails as bureaucrats keep a jealous hold on atomic installations, we still have an "open situation." Professor Wittfogel is impressed with the reasoning of James Burnham, who has scented great danger in the rise of a "managerial bureaucracy." But despite the fact that "public opinion . . . is ambivalent about the form and function of managerial bureaucracy," the Second Industrial Revolution (to quote Wittfogel) ". . . is perpetuating the principle of a multicentered society through large bureaucratized complexes that mutually – and laterally – check each other: most importantly, Big Government, Big Business, Big Agriculture, and Big Labor." Professor Wittfogel trusts that "Western writers, teachers, and practising politicians" will grasp the nature of our "open situation" and prevent the swallowing of any "large bureaucratized complex" by any other.

This analysis of the rather limited nature of our "open situation" may leave much to be desired. It does not accord with the prospect that new small businesses might flourish if inflation and the depredations of the tax collector could be halted. Nor does it reckon with the fact that the family-sized farm can still be prosperous, or with the possibility that Big Labor might be trimmed down by the repeal of laws that tend to foster the whole paraphernalia of industry-wide bargaining and industry-wide agreements. Professor Wittfogel may, indeed, be entirely too pessimistic about the possibilities for a proliferation of smaller power units in our multicentered society.

Even though Wittfogel is qualified in his optimism, however, we may be grateful for his eye-opening book. It is a truly original work. With luck it may prove to be the final blow to the thinking of Karl Marx. • • •

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Battle for the Mind

By William Sargant. New York: Doubleday and Company. 260 pp. $4.50.

Myth and Guilt

By Theodor Reik. New York: George Braziller, Inc. 432 pp. $5.75.

These two books are in manifold and fruitful opposition. Dr. Sargant is an eminent British psychiatrist. He is religious in background, physiologically slanted through his enthusiastic belief in Pavlovian control by conditioning the reflexes and his reliance on laboratory experimentation with drugs and nerve stimuli. He is hopeful of the outcome in this Battle for the Mind between the varied ideologies if only we realize we are in the Psychological Revolution and will use these newly sharpened weapons of the mind and the newly cut keys to the spirit.

Dr. Reik is a patriarch of the Freudian faith, deeply learned in Western history (as orthodoxists should be) and holding fast to the revelation given by the Founder. Charmingly, he blends a theory of tragedy (as a dramatic rendering of the precultural murder of the sire of the pack by his sons), an hypothesis about Original Sin (our ancestral guilt springs from the same source), and a proposal as to why Judaism with its stern Jehovah and Christianity with its God of Love appear as aeonic antagonists. He is compassionate and sad. Know the truth as psychoanalysis has revealed it, he seems to say, and the wisdom it imparts may be tonic enough to take you off the dangerously elational drug called Hope.

Dr. Sargant's confidence in reconditioned reflexes and nerve drugs does seem a little premature. He tells us that the deep mind can only be altered by three forces – fear, hatred, and ecstasy. He shows, convincingly, the profound alterations now routinely produced by fear and hatred. But he says nothing about the effects of ecstasy – although he makes some interesting comments on religious conversion and the revivalist techniques of John Wesley and later evangelists. Wesley did "rebound" his converts into happiness, but it was by first bouncing them off the red hot floor of eternal Hell. This technique is still used but it works less well each year, and with fewer people. The others await a truly contemporary set of "spiritual exercises."

Dr. Sargant proposes that, if we are not prepared to "Pavlovize" all our people, we had better cultivate a sense of humor. Humor, he thinks, holds up better against present police or popular fourth and fifth degree methods of mind-

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changing than does rational conviction or conscientious loyalty.

Dr. Reik's pessimism, on the other hand, happily seems no better founded. He appeals to history. But, with the too common provincialism of Western man, he confines his survey to the Semitic Mediterranean outcrop from the main stratiform layers of man's story. China and India he leaves aside. Had he considered the entirety of these deposits in the light of psychological history, he would have detected, as historians today are coming to recognize, that the guilt in our social tradition arose as a natural reaction following the Heroic Age. After "Heroic Man" (the proto-individual) had (circa 1500 B.C.) with violent *hubris* smashed the ancient "hypnocratic" cultural pattern, this epoch of violence is of necessity succeeded by the next stage (circa the eighth century B.C.), the Epoch of Guilt with its expiatory method, Asceticism.

And further, if we survey the entire process now available to the historian, (as I have attempted in *The Human Venture*) instead of a *damnosa hereditas*, we can detect a vast period of successive ordeals and initiations whereby Man is, through these labors and rebirths, gradually becoming aware of where he is, what he is, and who he is.

GERALD HEARD

The Coming Caesars

By Amaury de Riencourt. New York: Coward-McCann. 384 pp. $6.00.

The Coming Caesars may be described as an extended essay on historical patterns which makes some bold predictions about the future of the West. The author's thesis is that America is now well on the road to Caesarian government, and that, since American power will inevitably dominate the world, the age of Caesars is here.

The argument derives such force as it has from a grand historical analogy. In a long and detailed survey, Mr. de Riencourt maintains that Europe stands in the same relation to America in which Greece stood to Rome, and that just as Rome was fated to overcome Greece and master the world, so America is fated to take over Europe and dominate the world of tomorrow. This is supported by a concurring analogy, in which European culture is likened to Greek culture and American civilization to Roman civilization. In his analysis, culture and civilization are distinct stages; a civilization always follows upon a culture and, in a manner of speaking, lives upon the capital the culture has created. As Rome absorbed and to some extent maintained the culture of Greece, so America is absorbing and to some extent maintaining

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the European cultural heritage. On analogy with Rome, its civilization must end in "a universal state under the sway of a Caesarian ruler."

In developing this case, the author draws many specific parallels between Rome and America. But the decisive parallel for his argument was the adoption by both of the course of expansion and power. He recalls the time when the Americans stood at a crossroads: would they follow the decentralizing lead of Jefferson, or would they "embark upon the road to consolidation, centralization, and fusion, with all that is implied – territorial expansion, increasing national power, and eventual imperialism leading to a profound transformation of the political structure"?

The crucial turn came with the end of the conservative Virginia Dynasty and the beginning of radical democracy under Jackson, with its augmentation of the power of the President. Mr. de Riencourt does not fail to remind us that imperialism and democracy have too often been linked in history for their conjunction to be accidental: "the implacable expansion of vigorous democracy has often been blurred by ideological misconceptions; but it is a stark reality."

The story from this point on deals with the inevitable elevation of the President into a "tribune of the people," which fact has put an end to the original balance of power among the branches of the government. Even Lincoln, with his native democratic instincts, assumed virtually unlimited power during the Civil War and so established precedents which any future "strong man" could use for his own purposes. But it was in Franklin D. Roosevelt that the Americans found their first real "tribune of the people," and it was out of the Tribunitian office that Augustus created the imperial dignity. "Franklin Roosevelt was determined to establish a semidictatorial rule, a personal rule such as none of his strong predecessors would have dared to contemplate in their wildest dreams." And such was his success that when the New Deal was in full operation, "nothing could have been further removed from the parliamentary type of government." With the changes of structure effected by Roosevelt, it now seems almost hopeless to think of diminishing the powers of the President. Many will feel that Mr. de Riencourt hardly exaggerates when he writes: "Today he wears ten hats – as Head of State, Chief Executive, Minister of Foreign Affairs, Chief Legislator, Head of Party, Tribune of the People, Ultimate Arbitrator of Social Justice, Guardian of Economic Prosperity,

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and World Leader of Western Civilization. Slowly and unobtrusively these hats are becoming crowns and this pyramid of hats is slowly metamorphosing itself into a tiara, the tiara of one man's world imperium."

But skillful as it is in its delineations, the work suffers gravely from obscurity of purpose. In some places the tone suggests that the author wishes to put the Americans on guard against this approaching Caesarism. In other places, he seems to hold people culpable for not appreciating the necessity of Caesarism. In yet other places, he seems to regard Caesarism as one of those inexorable forces which it would be foolish to oppose and idle to try to assist.

To have real value, a book of this kind should isolate with some degree of clarity the cause of Caesarism, as Garet Garrett did so brilliantly in *The People's Pottage*. Then we would have an inkling of where to take hold if we desire to arrest the process. But Mr. de Riencourt's causal analysis is almost hopelessly confused and chaotic. He jumps wildly from the literal to the metaphorical, and from things that could be controlled to things that are by definition uncontrollable. In one place the cause is given as "historical evolution," in other places as "our hearts and minds," "biological laws," "inescapable destiny," etc. The reader may be pardoned if he throws up his hands in discouragement and says that although Mr. de Riencourt has described much, he has proved little or nothing that could be of use to those who hope to save freedom.

RICHARD M. WEAVER

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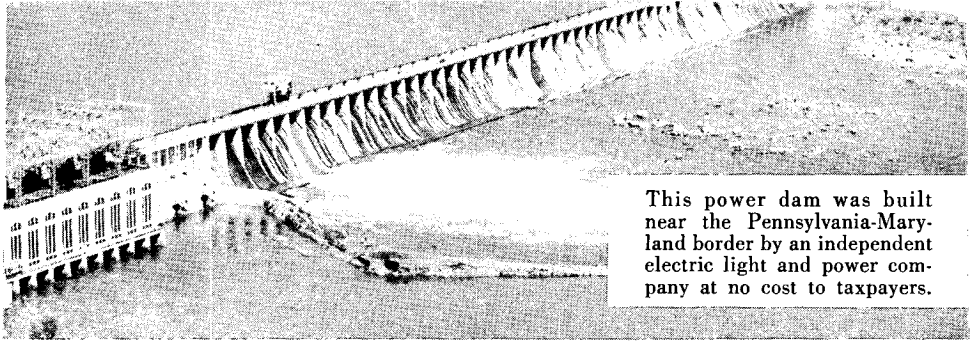

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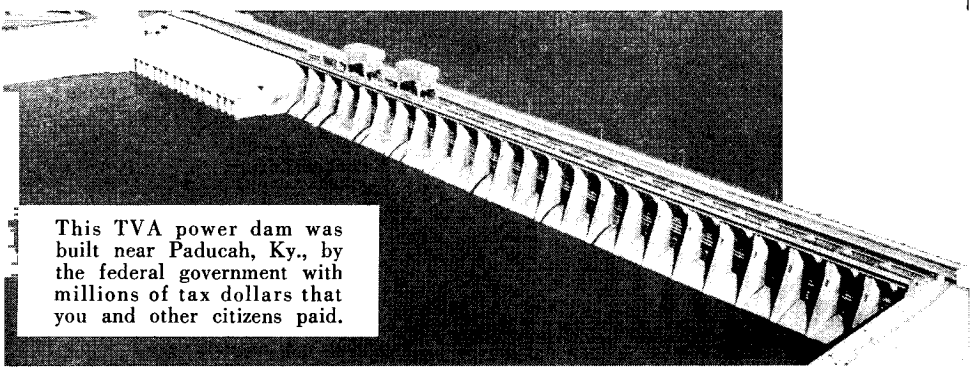

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Is it fair for you to have to pay extra taxes like this for customers of federal government power systems? Shouldn't something be done about it? *America's Independent Electric Light and Power Companies**.

*Company name on request through this magazine

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FROM A LIBERTARIAN'S LIBRARY

"OH, LIBERTY!" Madame Roland is said to have exclaimed as she passed a statue to that goddess on her way to the guillotine, "what crimes are committed in thy name!" Looking at the world today, we are tempted to stress the intellectual crimes committed in the name of liberty as much as the moral crimes. Never were men more ardent in defense of "liberty" than they are today; but never were there more diverse concepts of what constitutes true liberty. Many of today's writers who are most eloquent in their arguments for liberty in fact preach philosophies that would destroy it. It seems to be typical of the books of our intelligentsia to praise one kind of liberty incessantly while disparaging or ridiculing another kind. The liberty that they so rightly praise is the liberty of thought and expression. But the liberty that they so foolishly denounce is economic liberty.

A selection from *The Free Man's Library*, a descriptive and critical bibliography by Henry Hazlitt, D. Van Nostrand Company, Princeton. 176pp. $3.50.

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